

# **Finance Committee**

## **3rd Report, 2011 (Session 4)**

### **Report on the Scottish Spending Review 2011 and Draft Budget 2012-13**

#### **Volume 2: Reports from other Committees and the Scottish Commission for Public Audit**

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The Scottish Parliament  
Pàrlamaid na h-Alba

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The Scottish Parliament  
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## **Economy, Energy and Tourism Committee**

### **The Scottish Government's Draft Budget for 2012-2013**

The Committee reports to the Finance Committee and the Parliament as follows—

#### **Introduction**

1. This report reviews the spending proposals within the Finance, Employment and Sustainable Growth portfolio in the Scottish Government's Scottish Spending Review 2011 and Draft Budget 2012-13<sup>1</sup> which fall within the remit of the Economy, Energy and Tourism Committee ("the Committee"). The Committee also considers how the Scottish Government's plans will support the wider Scottish economy to meet the challenges and uncertainties ahead in relation to economic recovery and long-term, sustainable growth.

2. To assist with its understanding of the implications of the budget proposed by the Scottish Government, the Committee took evidence from the following—

- Bill Jamieson, Executive Editor, Scotsman Publications Ltd.; Professor John McLaren, Centre for Public Policy and Regions, University of Glasgow.
- Colin Borland, Head of External Affairs, Federation of Small Businesses; David Lonsdale, Assistant Director, CBI; Ian Shearer, Interim Director, Scottish Retail Consortium.
- Lena Wilson, Chief Executive, and Iain Scott, Chief Financial Officer, Scottish Enterprise; Alex Paterson, Chief Executive, and Forbes Duthie, Director of Finance and Corporate Services, Highlands and Islands Enterprise; Malcolm Roughead, Chief Executive, VisitScotland; Anne MacColl, Chief Executive, Scottish Development International.
- Niall Stuart, Chief Executive, Scottish Renewables.
- Norman Kerr, Director, Energy Action Scotland; Andrew Faulke, Policy Manager, Consumer Focus Scotland

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<sup>1</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011

- John Downie, Director of Public Affairs, Scottish Council for Voluntary Organisations; Duncan Thorp, Parliamentary, Policy and Communications Officer, Scottish Social Enterprises Coalition; George Thomson, Chief Executive, Volunteer Development Scotland
- Stephen Boyd, Assistant Secretary, STUC; Jim Boyle, Convener, Poverty Alliance.
- John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth.
- Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, Scottish Government.

3. In addition, the Committee also received written evidence from: Alliance Boots, Alliance of Sector Skills in Scotland, British Council of Shopping Centres, CBI Scotland, Consumer Focus, Energy Action Scotland, Existing Homes Alliance in Scotland, Federation of Small Businesses, Highlands and Islands Enterprise, Scottish Building Federation, Scottish Chambers of Commerce, Scottish Council for Development and Industry, Scottish Enterprise, Scottish Government, Scottish Property Federation, Scottish Renewables, Scottish Retail Consortium, Scottish Council for Voluntary Organisations, Scottish Tourism Forum, Scottish Trades Union Congress, Scottish Wholesale Association, Strategic Forum Partners, Stop Climate Chaos Scotland, Unison, VisitScotland, Wine and Spirit Trade Association and WWF Scotland.

**4. The Committee would like to thank all of those who gave evidence to the Committee. The Committee would also like to thank Mr Peter Wood, the Committee's budget adviser, for his invaluable support and expert advice throughout the budget scrutiny process.**

#### *Finance Committee guidance*

5. In its guidance to committees, the Parliament's Finance Committee recommended that scrutiny of preventative spending should be integral to the annual budget process and that subject committees should scrutinise the Scottish Government's progress in moving towards a more preventative approach to public spending. The Committee has sought to adhere to this guidance during this year's scrutiny.

#### **The scope of the Committee's scrutiny**

6. The Committee agreed the following remit and key issues as the basis of its scrutiny of the Draft Scottish budget for 2012-2013 and the 2011 Spending Review.

#### *Remit*

7. The Committee agreed to focus on:

- how well the proposed Scottish Budget for 2012-13 and expenditure plans for later years will support the Scottish economy in meeting the challenges and uncertainties ahead; and

- whether and how the resources allocated in the Economy, Energy and Tourism Budget line will be applied effectively to assist economic recovery and long-term growth.

*Key issues*

8. The Committee agreed pose the following questions:

- What is the outlook for the Scottish economy over the next three years and what are the major risks?
- Has Scottish Government adopted the most appropriate priorities in this budget for the year ahead and over the period to 2015 – particularly in the division of resources between social programmes and investment in education and infrastructure?
- The budgets of the Enterprise Agencies have enjoyed some degree of protection – is this appropriate and how should the Enterprise Agencies focus their resources to promote recovery and growth?
- Resources for Renewable Energy projects to be spent through SE and HIE have been substantially increased – how can these resources be most effectively deployed?
- Resources available to VisitScotland have been increased – is this appropriate and how should they be applied?
- Will the continued reduction in spending on social housing investment frustrate attempts to reduce fuel poverty by slowing the rate of improvement in the housing stock?
- How will fuel poverty be affected by increased reliance on relatively expensive renewable energy?
- Business rates are to be increased in line with inflation – will this represent an increased burden on business and will it affect business performance in general and how will the tobacco and alcohol levy affect the retail sector in particular?
- It is assumed that over the period to 2015 economic growth will deliver significantly increased rates income. Is this realistic in the light of economic prospects?
- What are the implications of the proposals in the draft budget to shift some £750m over the spending review period from the revenue budget to capital spending—for investment, for services and for economic growth?

## BACKGROUND

### Economic backdrop

9. The 2011 Spending Review and Draft Budget for 2012-13 have been prepared against a backdrop of national and international economic turmoil, with matters within the Eurozone and beyond unfolding on a daily basis. The growing sovereign debt crisis in the Eurozone has raised fears of a “double dip” recession and forecasts of economic growth are being downgraded. Over the last year the performance of Scotland’s economy in expanding employment levels has been better than that of the UK as a whole but economic output has not grown in line with employment which suggests a decline in productivity. However, over the period 2008Q2 to 2010Q1, employment in Scotland fell by 4.5% compared with 2.4% across the UK as a whole. Compared with 2008Q2, employment in Scotland remains 2.9% lower, while across the UK as a whole employment is 1.6% lower.<sup>1</sup>

10. The STUC argue that underemployment – reflected in high levels of involuntary part time working – is the “great untold story of the recession”.<sup>2</sup> What is of great concern at both the UK and Scottish levels is the dramatic rise in youth unemployment, at the highest level since February 1997. Unemployment figures also show women are suffering disproportionately.

11. For some commentators and the Scottish Government, doubt remains over the potential of the UK Government’s austerity programme to reduce the level of UK public debt and much concern has been expressed over the programme’s impact on growth and the speed of recovery. At the time of writing, it is not possible to predict what further UK policy measures will be adopted if the austerity programme’s targets are not met.

12. What is clear is that the Scottish Government’s budget as a whole, while increasing in cash terms, will decline in real terms (as set out in table 1), over the Spending Review period, limiting the expenditure options available to the Scottish Government. The Cabinet Secretary for Finance, Employment and Sustainable Growth described the reductions in the real value of the Scottish Budget as “savage”.<sup>3</sup> Decisions that the Scottish Government have taken, however, to afford greater protection in areas such as health spending, will mean that greater declines are felt elsewhere in the budget.

13. Other external factors will come into play during the Spending Review period. The Poverty Alliance estimated that the welfare reforms which are expected to be introduced by the UK Government will remove £2 billion from the Scottish economy in the lifetime of this Parliament.<sup>4</sup> These reforms, which include the reform of housing benefit, will have an appreciable impact on low income households and reduce demand in the economy. The Centre for Public Policy and Regions (CPPR) also pointed out that demographic changes will bring increases in demand for many public

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<sup>1</sup> Office for National Statistics; latest figures relate to 2011Q3

<sup>2</sup> STUC *written submission to the Committee*, October 2011, page 1.

<sup>3</sup> Cabinet Secretary for Finance, Employment and Sustainable Growth, [open letter to all businesses](#), 29 September 2011

<sup>4</sup> [http://www.cas.org.uk/Resources/CAS/Migrated%20Resources/Documents/Politicians%20briefing/ScotlandBillCttee\\_WelfareReformBill.pdf](http://www.cas.org.uk/Resources/CAS/Migrated%20Resources/Documents/Politicians%20briefing/ScotlandBillCttee_WelfareReformBill.pdf)

services as the population ages at the same time as budgets are being squeezed.<sup>5</sup> Furthermore, Professor John McLaren of the CPPR, pointed out that there is a risk that inflation over the next few years will be significantly higher than assumed in the UK Spending Review and this would increase further the cash resources required to match budget commitments.<sup>6</sup>

14. The implication of the economic factors considered above is that the assumptions underlying the Spending Review which determined the Scottish Government's budget allocation may yet prove to have been too optimistic, increasing the pressures on the budget of the Scottish Government.

### The budget figures

15. The following tables set out the changes to the Scottish Budget, in real terms (2011-12 prices) and cash terms, over the Spending Review period.

**Table 1: Allocation of TME, DEL and AME, cash terms**

| £m                               | 2011-12         | 2012-13         | 2013-14         | 2014-15         |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total DEL of which:              | 28,007.3        | 28,259.8        | 28,317.8        | 28,606.2        |
| <i>DEL Resource</i>              | 25,400.6        | 25,788.4        | 26,079.4        | 26,286.6        |
| <i>DEL Capital</i>               | 2,606.7         | 2,471.4         | 2,238.4         | 2,319.6         |
| AME                              | 5,612.4         | 5,698.6         | 6,209.0         | 6,676.5         |
| <b>Total Managed Expenditure</b> | <b>33,619.7</b> | <b>33,958.4</b> | <b>34,526.8</b> | <b>35,282.7</b> |

**Table 2: Allocation of TME, DEL and AME, real terms (2011-12 prices)**

| £m                               | 2011-12         | 2012-13         | 2013-14         | 2014-15         |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
| Total DEL of which:              | 28,007.3        | 27,570.5        | 26,900.8        | 26,460.3        |
| <i>DEL Resource</i>              | 25,400.6        | 25,159.4        | 24,774.4        | 24,314.7        |
| <i>DEL Capital</i>               | 2,606.7         | 2,411.1         | 2,126.4         | 2,145.6         |
| AME                              | 5,612.4         | 5,559.6         | 5,898.3         | 6,175.7         |
| <b>Total Managed Expenditure</b> | <b>33,619.7</b> | <b>33,130.2</b> | <b>32,799.1</b> | <b>32,636.0</b> |

**Table 3: Percentage change in DEL, AME and TME in real terms**

| %                                | 2011-12<br>to<br>2012-13 | 2012-13<br>to<br>2013-14 | 2013-14<br>to<br>2014-15 | 2011-12<br>to<br>2014-15 |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Total DEL of which:              | -1.6                     | -2.4                     | -1.6                     | -5.5                     |
| <i>DEL Resource</i>              | -0.9                     | -1.5                     | -1.9                     | -4.3                     |
| <i>DEL Capital</i>               | -7.5                     | -11.8                    | 0.9                      | -17.7                    |
| AME                              | -0.9                     | 6.1                      | 4.7                      | 10.0                     |
| <b>Total Managed Expenditure</b> | <b>-1.5</b>              | <b>-1.0</b>              | <b>-0.5</b>              | <b>-2.9</b>              |

Source: SPICE<sup>7</sup>

16. The Departmental Expenditure Limit (DEL), which is the discretionary element of the Scottish Budget, to be allocated across portfolios, will be reduced by £436.8m (in

<sup>5</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 325.

<sup>6</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 328-329.

<sup>7</sup> SPICE is the Scottish Parliament Information Centre.

real terms) or 1.6% in the 2012-13 budget compared with 2011-12. The allocation to the Enterprise, Energy and Tourism budget line, however, is set to increase slightly, as outlined below.

#### Capital budgets

17. Over the Spending Review period the reduction in the capital element of the DEL will be much higher, at 17.7%, than the overall DEL reduction, which will be 5.5%.

18. The Draft Scottish Budget proposes measures to mitigate partly this sharp reduction in capital resources. The Cabinet Secretary for Finance, Employment and Sustainable Growth placed much emphasis in his budget speech on his plans to transfer £750m from resource DEL to capital DEL over the Spending Review period,<sup>8</sup> with the result that capital spending will be 11% higher and resource spending will be 1% lower than would otherwise be the case<sup>9</sup>.

#### Enterprise, Energy and Tourism

19. In real terms, the Enterprise, Energy and Tourism budget will increase by £0.2m (or 0.1%) in 2012-13 compared with 2011-12. Within this total, the single largest budget line is 'Enterprise Policy and Delivery'. Whilst there is an increase in this budget line of 7.8% in real terms over the Spending Review period, this largely reflects the merging of three budget lines (Enterprise Policy and Delivery, Industry and Technology Grants and Scottish Development International) into the Enterprise Agencies' budgets from 2012-13 onwards. More detail is provided later in this report.

**Table 4: Enterprise, Energy and Tourism budget, 2011-12 prices**

|   | 2011-12<br>Budget<br>£m | 2012-13<br>Draft<br>Budget<br>£m | 2013-14<br>Draft<br>Budget<br>£m | 2014-15<br>Draft<br>Budget<br>£m |
|---|-------------------------|----------------------------------|----------------------------------|----------------------------------|
| Enterprise Policy & Delivery  | 283.4                   | 314.1                            | 309.9                            | 305.4                            |
| Industry & Technology Grants  | 45.2                    | -                                | -                                | -                                |
| Energy  | 34.6                    | 62.7                             | 53.4                             | 55.5                             |
| Tourism   | 41.0                    | 47.9                             | 47.0                             | 46.5                             |
| Innovation & Industries   | 5.8                     | 5.7                              | 5.5                              | 5.4                              |
| Scottish Development International (SDI)  | 0.7                     | -                                | -                                | -                                |
| Strategic Forum   | -                       | -19.5                            | -23.7                            | -37.0                            |
| <b>Total Enterprise, Energy and Tourism</b>   | <b>410.7</b>            | <b>410.9</b>                     | <b>392.0</b>                     | <b>375.8</b>                     |
| <i>Enterprise Policy &amp; Delivery, Industry &amp; Technology Grants and SDI total</i> | 329.3                   | 314.1                            | 309.9                            | 305.4                            |

**Source: SPICE**

<sup>8</sup> Scottish Parliament, *Official Report*, 21 September 2011 Col 1917.

<sup>9</sup> Analysis provided by SPICE

**Table 5: Changes in EET budget lines, real terms, and %**

|  | <b>Change<br/>2011-12 to<br/>2012-13 (%)</b> | <b>Change<br/>2011-12 to<br/>2014-15 (%)</b> |
|--|--|--|
| Enterprise Policy & Delivery   | 10.8%  | 7.8%   |
| Energy   | 81.3%  | 60.4%  |
| Tourism  | 16.8%  | 13.5%  |
| Innovation & Industries  | -2.4%  | -7.5%  |
| <b>Total</b>   | <b>0.1%</b>                                  | <b>-8.5%</b>                                 |
| Enterprise Policy & Delivery, Industry & Technology Grants and SDI total | -4.6%  | -7.3%  |

**Source: SPICE**

20. The Draft Budget also sets out a requirement for the partners of the Strategic Forum (Scottish Enterprise, Highlands and Islands Enterprise, VisitScotland, Skills Development Scotland and the Scottish Funding Council) to find savings of £20m/£25m/£40m (in cash terms) over the years 2012-13 to 2014-15. It is not yet clear how these savings will impact on the individual bodies, but these required efficiencies will have a further negative impact on the Enterprise Policy and Delivery budget line.

21. The energy line in the Draft Budget shows an increase of 81.3% in real terms in 2012-13 and 60.4% over the course of the Spending Review period. The Draft Budget document refers to spending of £300m on energy-related projects (including £200m on renewables) over the Spending Review period. There is also reference to “a new £60m capital budget [to] be allocated to renewable energy proposals.”<sup>10</sup>

22. The tourism line in the Draft Budget increases by 16.8% in real terms in 2012-13 and 13.5% in real terms over the course of the Spending Review period. This reflects one-off exceptional spending associated with the Ryder Cup, the Olympic and Commonwealth Games and the next Year of Homecoming.

*Other budget lines of interest to the Committee*

23. The table below sets out other budget lines which impact on the Committee’s remit.

<sup>10</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 22.

**Table 6: Selected Level 2 / 3 budgets, £m, 2011-12 prices**

|   | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|---|---------|---------|---------|---------|
| Third Sector (Level 2)                    | 27.0    | 23.9    | 23.3    | 22.7    |
| Current Funding for HEIs                  | 926.2   | 977.8   | 989.4   | 982.1   |
| Current Funding for FE Colleges           | 544.7   | 494.5   | 469.9   | 435.4   |
| Capital Grants for FE Colleges/ HEIs      | 91.0    | 59.2    | 43.6    | 52.2    |
| Employability, skills & lifelong learning | 244.4   | 234.5   | 235.6   | 226.2   |
| Supporting Economic Growth/ Housing       | 268.5   | 151.5   | 126.8   | 148.0   |
| Warm Homes Fund                           | -       | 3.2     | 7.4     | 17.3    |
| Fuel poverty                              | 54.5    | 63.4    | 61.7    | 61.3    |
| Broadband/Pathfinder/Digital Fund         | 11.6    | 18.1    | 15.2    | 14.8    |
| Non-domestic rates income                 | 2,171.4 | 2,207.8 | 2,313.2 | 2,464.2 |

**Source: SPICe**

24. The key funding changes, in real terms, are as follows:

- Third Sector funding falls by 11.5% in 2012-13 and 16.1% over the Spending Review period; this includes £3m over the period to support the Reducing Re-offending Change Fund;
- Funding for higher education institutions (HEIs) increases, but this is offset by reductions in funding for Further Education (FE) colleges over the course of the Spending Review;
- Capital funding for the HEI/FE College sector falls by 42.7% over the Spending Review period;

- The regeneration line in the Draft Budget (‘Supporting economic growth/housing’) falls by 44.9% over the Spending Review period, with most of the reduction in the first year;
- Investment in superfast broadband will total £60m over the Spending Review period;
- Fuel poverty spending increases by 16% in real terms in 2012-13, but falls by 3% and 1% in real terms in the subsequent two years (although the Warm Homes Fund will include measures to tackle fuel poverty); this comes on the back of a sharp decrease in the 2011-12 budget compared with the 2010-11 budget; and
- Non-domestic rates (NDR) income is forecast to increase by 13.5% over the Spending Review period as a result of forecast increased occupancy of premises, changes in the treatment of empty properties and the introduction of the Public Health Levy on large retail properties that sell both tobacco and alcohol (projected to realise £30m in year one, rising to £40m thereafter). If this level of NDR income is not realised, the Scottish Government is committed to meeting any shortfall through an increased grant to local government.

#### *Efficiency savings*

25. There is far less emphasis on efficiency savings in this year’s Draft Budget than in recent years. In previous years, there has been an explicit efficiency savings target (3% in 2011-12) with the understanding that this was how some of the budget reductions were to be achieved. This year, no overall efficiency target has been set and the Scottish Government no longer plans to publish efficiency outturn reports. This means it is harder to assess the expected impact of budget reductions on service levels or quality.

26. The Draft Budget does, however, set out a requirement for the partners of the Strategic Forum to find savings of £20m/£25m/£40m (in cash terms) over the years 2012-13 to 2014-15.

#### *Preventative spend*

27. The Scottish Government’s programme for public service reform involves plans for “a decisive shift towards preventative spending”.<sup>11</sup> The Draft Budget document refers to funding of “up to £500 million through these change funds to support the greater alignment of budgets across the public sector on a preventative and outcomes-focused basis”.<sup>12</sup> The Reducing Re-offending Change Fund, for which there is £3m of funding in the Third Sector budget line, is included within this.<sup>13</sup> On this issue, SCVO stated that “analysis of the change fund for reshaping care for older people has shown that only 18 per cent has been allocated for prevention”.<sup>14</sup>

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<sup>11</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page vii.

<sup>12</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 224.

<sup>13</sup> The analysis of the budget figures in this section was provided by SPICe

<sup>14</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Cols 441-442

## KEY ISSUES

### **Does the Draft Budget offer the right priorities for economic recovery and long term growth?**

28. This Draft Budget comes at a time of unprecedented global economic turmoil. Scotland, along with the rest of the UK and many European countries, faces a great deal of uncertainty over its economic future. Therefore, any measures to strengthen the economy and stimulate sustainable economic growth are to be welcomed.<sup>15</sup> The Cabinet Secretary for Finance, Employment and Sustainable Growth, in an open letter to every business in Scotland, specified four key areas in which the Spending Review and Draft Budget 2012-13 aims to support economic growth. There were:

boosting public sector capital investment;

improving access to finance and encouraging new private investment;

enhancing economic security to support confidence across the Scottish economy; and,

taking direct action to tackle unemployment.<sup>16</sup>

29. The remainder of this section of the reports looks at the key policies and programmes of the Scottish Government and its key agencies, and the evidence that the Committee heard on each.

### **General levels of support for business and the role of SMEs**

30. All witnesses who appeared before the Committee expressed considerable concern over the outlook for Scottish businesses and for smaller businesses in particular.

31. Bill Jamieson, Executive Editor of *The Scotsman*, emphasised the importance of support for small and medium sized enterprises (SMEs) “because that sector is likely to have the greatest potential for employment creation”.<sup>17</sup> He spoke of his concern for those businesses which had withstood two years of poor trading conditions and were now extremely vulnerable. He said that “the prospect is that next year will be the year in which they will throw in the towel or their banks will throw the towel in for them”.<sup>18</sup>

32. Professor John McLaren of the CPPR was concerned about whether tourism and export policies, for example, were tailored to the needs of SMEs or whether there was an unhelpful focus on large firms.<sup>19</sup>

33. Other witnesses spoke of difficulties with both the availability of business credit and the willingness of businesses to borrow in order to invest. There was not a consensus on the part of witnesses as to whether ability to borrow was more affected

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<sup>15</sup> Patrick Harvie recorded his dissent to this sentence.

<sup>16</sup> Cabinet Secretary for Finance, Employment and Sustainable Growth, [open letter to all businesses](#), 29 September 2011

<sup>17</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 325.

<sup>18</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 326.

<sup>19</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 327.

by a lack of business confidence or by the higher borrowing costs and loan conditions imposed by lenders since the financial crisis. Witnesses also spoke of the “breach of trust” which had occurred between lenders and businesses at this time,<sup>20</sup> which had reduced the confidence of businesses in dealing with lenders. There was support among witnesses for measures which would help SMEs to improve their ability to pitch to banks and to secure finance.<sup>21</sup> Witnesses also called for a simplified, one-stop-shop to enable businesses to comply with regulation surrounding the employment of staff.<sup>22</sup>

34. The wider economic malaise does, of course, mean measures to increase investment in order to build up supply capacity may prove ineffective if no market exists for the output. Witnesses agreed that, until issues in the world economy, and especially the Eurozone, are resolved, this uncertainty would remain.<sup>23</sup>

35. The FSB said of the proposed Enterprise Areas, “with limited information available about the Scottish Government’s plans we are unsure about the extent of opportunity for small businesses. The evidence on the introduction of enterprise ‘zones’ elsewhere (both in the UK, EU and US) suggests that the impact can be limited with serious risk of displacement”.<sup>24</sup> Alliance Boots added that “It is difficult to judge the Strategic Spending Review and draft budget until there is more detail on key initiatives, such as the Cities Strategy and the proposed Enterprise Areas”.<sup>25</sup>

**36. We urge the Scottish Government to come forward at the earliest opportunity with the detail of how its proposed Enterprise Areas will work.**

### **The value of the Small Business Bonus Scheme**

37. Colin Borland of the Federation of Small Businesses (FSB) welcomed the continuation of the Small Business Bonus Scheme (SBBS), describing it as a “lifeline” for businesses through difficult times.<sup>26</sup> The Scottish Retail Consortium said that “we support the small business bonus scheme”.<sup>27</sup> Alliance Boots<sup>28</sup> and the Scottish Property Federation<sup>29</sup> also welcomed its continuation.<sup>30</sup> However, Stephen Boyd of the STUC strongly disagreed. He argued that, if £1,400 (the Scottish Government’s estimate of the average annual saving to businesses in 2009-10 under the scheme) was material to the survival of a firm, then that firm was not a viable, sustainable business in the first place. He argued that the annual sum of approximately £130m per annum spent on the Scheme would be better used for the “under-capitalised” Scottish Investment Bank, to offer targeted support for investment and research and development by firms.<sup>31</sup> He added that, as an economic

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<sup>20</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 337.

<sup>21</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 328.

<sup>22</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 331.

<sup>23</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 330.

<sup>24</sup> FSB *written submission to the Committee*, October 2011, page 2.

<sup>25</sup> Alliance Boots, *written submission to the Committee*, October 2011, page 1.

<sup>26</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 352.

<sup>27</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 353.

<sup>28</sup> Alliance Boots, *written submission to the Committee*, October 2011, page 1.

<sup>29</sup> Scottish Property Federation *written submission to the Committee*, October 2011, page 3.

<sup>31</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 468.

development measure, the SBBS was “money wasted” and that there were better, more economic efficient ways of supporting SMEs.<sup>32</sup>

38. When he gave evidence to the Committee, the Cabinet Secretary for Finance, Employment and Sustainable Growth said that 85,200 properties had had their rates burden reduced or removed by the scheme and that he had been told how valuable it was for small business owners.<sup>33</sup>

**39. The majority of respondents on this point regarded the Small Business Bonus Scheme as a positive measure for small businesses. However the Committee notes that no assessment has been made of the overall economic impact of the scheme compared with other measures which could be implemented at the same cost. The majority of the Committee therefore welcomes the continuation of the Small Business Bonus Scheme during this Spending Review period but recommends that the Scottish Government undertake an evaluation of its overall economic benefit in order to shape future thinking and decision-making.**

#### **Empty property rates relief scheme**

40. Witnesses were divided over the proposal for empty property rates relief, which the Draft Budget stated “will be reformed to provide strong incentives to bring vacant premises back into use, reducing the prevalence of empty shops in town centres and supporting urban regeneration”.<sup>34</sup> It was recognised by witnesses that there would be winners and losers as a result of the reforms.<sup>35</sup> Alliance Boots said that it looked “forward to the reform of empty property relief, with the aim of bringing empty premises back into use”.<sup>36</sup> The Scottish Council for Development and Industry (SCDI), however, expressed a number of concerns over the reform and cautioned that “the experience in England has been that vacancy rates have increased since the relief was reduced and the anticipated substantial revenue savings have not been achieved”.<sup>37</sup> The Scottish Chambers of Commerce described the plans as “worrying”.<sup>38</sup>

41. Responding to calls from a member of the Committee that an impact assessment of the measure would be useful, the Cabinet Secretary for Finance, Employment and Sustainable Growth said—

“The changes that we are making are at such a level that I do not consider that a regulatory impact assessment is required. We are in a period of consultation on the question of empty property relief and the changes that the Government is proposing to make, so I will listen to the representations that are made to me. I

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<sup>32</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 477.

<sup>33</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 499.

<sup>34</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 226.

<sup>35</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 353.

<sup>36</sup> Alliance Boots, *written submission to the Committee*, October 2011, page 4.

<sup>37</sup> SCDI *written submission to the Committee*, October 2011, page 7.

<sup>38</sup> Scottish Chambers of Commerce, *written submission to the Committee*, October 2011, page 4.

will shortly be seeing the Scottish Property Federation, which has made representations to me on the issue.”<sup>39</sup>

42. Colin Borland agreed that such a scheme might also be extended to ensure that brownfield sites are not held back from development.<sup>40</sup>

**43. The Committee notes that the Cabinet Secretary for Finance, Employment and Sustainable Growth undertook to listen to representations on the empty property relief reforms proposed in the Draft Budget. The Committee, however, believes that it would be helpful to have additional detail on how the scheme would operate, and what its impact would be, so that the representations made to the Cabinet Secretary can be fully addressed.**<sup>41</sup>

### Pay policy

44. The Draft Budget sets out the Scottish Government’s intention to freeze public sector wages in 2012-13<sup>42</sup>, which, it argues, will help to maintain employment levels. Professor John McLaren pointed out that—

“when people become unemployed, they start to lose their skills, and the more they lose their skills, the more difficult it is for them to get back into employment when jobs are available. A pay freeze or even a move to having more part-time jobs, will keep people in employment and maintain their skills”.<sup>43</sup>

45. Jim Boyle of the Poverty Alliance argued for a living wage across the public sector and also to be built in as a condition of public contracts. He argued that the Draft Budget lacked vision when it came to selecting the right priorities and choices for a fairer society.<sup>44</sup>

46. Professor John McLaren emphasised the need to debate policy on public sector pay publicly as it “will not happen unless people buy into it.”<sup>45</sup> A written submission from STUC said “There is nothing in this Budget to assist hard pressed public sector workers currently suffering from pay freezes and increased pensions contributions”,<sup>46</sup> while UNISON said that the freeze “means that those who remain in work have less to spend which is again impacting growth in the private sector” and advised the Committee to “to get beyond the rhetoric of blaming Westminster and hold the Government to account for their spending choices”.<sup>47</sup>

**47. The majority of the Committee recognises the challenges facing public sector budgets within the current UK Government Spending Review**

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<sup>39</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 495.

<sup>40</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 362.

<sup>41</sup> An amendment to this paragraph was proposed. The proposal was disagreed to by division: For 3 (Gavin Brown, Rhoda Grant, Anne McTaggart), Against 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

<sup>42</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 41

<sup>43</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 338.

<sup>44</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 471.

<sup>45</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 339.

<sup>46</sup> STUC *written submission to the Committee*, October 2011, page 2.

<sup>47</sup> UNISON *written submission to the Committee*, October 2011, page 1.

arrangements and accepts the Scottish Government's decision to freeze public sector pay in 2012-13. However, beyond this date, the Committee would like to see further discussions and consultations in order to take the staff and unions with them if the Scottish Government chooses to extend a pay freeze beyond this period.<sup>48</sup>

48. However, a minority of the Committee recognises the challenges facing public sector budgets within the current UK Government settlement arrangements and notes with regret the Scottish Government's decision to continue to freeze public sector pay in 2012-13. The minority of the Committee therefore recommends that the Scottish Government place a high priority on ending the pay freeze at the earliest possible time. The minority of the Committee calls on the Scottish Government to hold further discussions with staff and unions to apprise them of the timescale for the ending of the pay freeze.<sup>49</sup>

49. The Committee recommends that, for as long as the pay freeze is in place, the threshold for protection from this measure – an income of £21k or below – should be reviewed on an annual basis. The Committee further recommends that the Scottish Government acts to address the bonus culture which still exists within some parts of the senior civil service and in some Government agencies.

#### *The social wage*

50. The Draft Budget sets out the Scottish Government's intentions around what it describes as the social wage. It says—

“the Social Wage asks those who work in the public sector to accept pay restraint while the Government will support households through measures such as the council tax freeze, free education and the abolition of prescription charges. Through the choices in this Spending Review, we are acting to create new economic opportunities, protect household income, support frontline services and improve our environment. Our initiatives aim to help households facing pay restraint, a necessary measure to protect jobs and assist the economy”.<sup>50</sup>

51. Stephen Boyd of the STUC observed that free prescriptions and a council tax freeze were unlikely to “fill the gap” for a public sector worker earning £25,000, but he welcomed the concept of a social wage and said that it represented a “decent start” on the Scottish Government's stated intentions around solidarity, equality and cohesion.<sup>51</sup> Jim Boyle of the Poverty Alliance also welcomed the social wage as the starting point for a process which would promote and protect the rights of citizens

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<sup>48</sup> This paragraph was agreed to by a majority of the Committee. For: 6 (Gavin Brown, Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson), Against 3 (Rhoda Grant, Patrick Harvie Anne McTaggart).

<sup>49</sup> This paragraph was agreed to by a minority of the Committee. For: 3 (Rhoda Grant, Patrick Harvie Anne McTaggart). Against 6: (Gavin Brown, Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

<sup>50</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page viii

<sup>51</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 473.

with respect to healthcare, dignity and employment.<sup>52</sup> The Cabinet Secretary for Finance, Employment and Sustainable Growth said "the council tax freeze has a proportionately greater impact on those who have low incomes than it does on those who have higher incomes".<sup>53</sup>

52. The Scottish Government's National Performance Framework sets out the following indicators and targets:

Indicator: solidarity, target: To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017.

Indicator: cohesion, target: To narrow the gap in participation between Scotland's best and worst performing regions by 2017

53. Referring to the £2 billion which, it is estimated, will be removed from the Scottish Economy over the life of this Parliament through the UK Government's welfare reform proposals, Jim Boyle said—

"a social wage will not make up for that loss. The other factor in that is that that money that the poorest people get is spent within their communities. If we take £2 billion not just out of the poorest communities but out of the Scottish economy, what effect will that have?...that is where the real challenge for cohesion, equality, solidarity and the social wage will come. What will the Scottish Government do when the welfare reforms start to hit the poorest in society?"<sup>54</sup>

**54. The Committee welcomes the concept of the social wage. However, the Committee looks forward to more detail on the concept and greater clarity on how the measure will support solidarity and cohesion, and reduce inequality particularly during times of economic hardship.**

### **Apprenticeships**

55. The Draft Budget sets out the Scottish Government's commitment to fund a "record" 25,000 modern apprenticeships. It also states that "we will use procurement as a lever for economic growth and, to this end, we intend to require recipients of major public contracts to deliver new training, employment and apprenticeship opportunities".<sup>55</sup>

56. Colin Borland of the Federation of Small Businesses confirmed that the appetite among his members for taking on apprentices was strong but that barriers, such as the administrative burden, remained.<sup>56</sup> He regretted the pressure on the Further Education budget, given colleges' role in developing apprenticeships.<sup>57</sup> The Scottish Building Federation, in its written submission, welcomed the Scottish Government's

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<sup>52</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 747.

<sup>53</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 500.

<sup>54</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 474

<sup>55</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page iv.

<sup>56</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 361.

<sup>57</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 365.

commitment to place conditions on public procurement and argued that conditions should be placed on contracts of all sizes.<sup>58</sup>

57. The decline in the further education budget is explored in greater detail in a later section of this report.

### **The transfer of resource budget to capital**

58. As set out in the background section of this paper, the Cabinet Secretary for Finance, Employment and Sustainable Growth plans to offset some of the reduction in the capital budget by transferring £750m from resource DEL to capital DEL over the Spending Review period. This will have the result that capital spending will be 11% higher and resource spending will be 1% lower than would otherwise be the case.<sup>59</sup>

59. The Scottish Futures Trust (SFT) was established in 2008 with the central aim of helping the Scottish Government achieve better value for money from public infrastructure investment in Scotland.<sup>60</sup> It is anticipated that the SFT will assist with the leverage of private finance to provide a £2.5 billion programme of investment.<sup>61</sup>

60. In [A Scottish Budget for Growth](#) the Scottish Government asserts that “capital investment is key to economic recovery”. Accordingly, the £200million per annum transfer will be conducted as part of a package of measures to promote “investment in the infrastructure Scotland needs to prosper, supporting jobs and promoting growth”. These include the non-profit distributing model (NPD), which includes a £2.5 billion pipeline of projects; use of Network Rail’s Regulatory Asset Base, key projects such as the Forth Replacement Crossing, (which will be funded from traditional DEL capital) and the delivery of 30,000 new affordable homes.<sup>62</sup> The Tax Incremental Financing model (TIF) will also be deployed. The Draft Budget describes it as “a means of funding public sector infrastructure judged to be necessary to unlock regeneration and sustainable economic development in an area, and which may otherwise be unaffordable to local authorities”.<sup>63</sup>

61. Specific information within the Draft Budget document on where the transfers will occur is limited. The Scottish Government has confirmed, however, the following broad allocation:

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<sup>58</sup> Scottish Building Federation, *written submission to the Committee*, October 2011, page 2.

<sup>59</sup> Analysis provided by SPICE

<sup>60</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 31.

<sup>61</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 498.

<sup>62</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page v.

<sup>63</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 29.

**Table 7: Resource to capital transfer plans**

| Spending area                      | Planned transfer from resource to capital over Spending Review period |
|------------------------------------|---|
| Health                             | £320m   |
| Warm Homes/ Future Transport Funds | Up to £50m  |
| Other Scottish Futures Fund        | ‘Significant elements’ of planned £100m spending                      |
| Enterprise Agencies                | Upwards of £280m  |
| <b>Total</b>                       | <b>£750m</b>  |

**Source: SPICe**

62. Many witnesses were supportive of this transfer from resource to capital, at least in principle<sup>64</sup> but regretted the lack of detail contained in the budget documents. As Professor John McLaren said, “we need a long term plan for capital”.<sup>65</sup> However, Professor McLaren also argued for a cost-benefit analysis in each area of expenditure in order to identify the projects that would have the greatest and earliest impact on the economy.

63. The Cabinet Secretary for Finance, Employment and Sustainable Growth explained that projects were measured against the Scottish Government’s purpose of creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth, and were also informed by the Scottish Government’s Infrastructure Investment Plan, which would be refreshed later in the year. He added that the Government looked for projects that were ready to proceed and would make the greatest economic impact.<sup>66</sup>

64. David Lonsdale of CBI Scotland also welcomed the move, and echoed Professor John McLaren’s concern over the lack of detail.<sup>67</sup> CBI Scotland’s written submission places an emphasis on transport and communications projects which, it feels would be more likely to enhance growth. The STUC’s written submission also regrets the level of detail within the Draft Budget on this measure. The measure was welcomed in written submissions by the Scottish Property Federation, SCDI and the Existing Homes Alliance.

65. SCDI cautioned that “the fact that a large proportion of the budget shifted from resource to capital will be in the enterprise budget will reduce the economic benefit of this decision”.<sup>68</sup> The Scottish Building Federation called on the Scottish Government to go further saying, “we believe additional measures could be taken to reinforce the capital spending programme still further, given the crucial role of capital investment in

<sup>64</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 341, 342

<sup>65</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 336.

<sup>66</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col

<sup>67</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 370.

<sup>68</sup> SCDI, *written submission to the Committee*, October 2011, page 4.

helping to secure sustainable long-term economic recovery in Scotland”.<sup>69</sup> This report explores the contribution made by the enterprise agencies to the transfer of resources, and whether their actions represent anything new, in later sections.

66. The Cabinet Secretary was unable to place an accurate figure on the amount of private investment the Scottish Government hoped to lever through its plans for capital expenditure. He said, however, “I hope to encourage significant volumes of private investment”. He also cited the considerable value (£750million) of renewables projects which had started generating in the last 12 months.<sup>70</sup>

67. Jim Boyle of the Poverty Alliance argued that there is little evidence to demonstrate that money spent on large infrastructure projects “trickles down” to poorer sections of society and that plans for such expenditure should take more account of poverty eradication rather than continue to rely on a “trickle down” effect which, he argued, had been demonstrated not to work.<sup>71</sup> He offered the example of spending money on retrofitting homes to make them more energy efficient as a way of creating local employment, up-skilling the workforce, while, at the same time, moving people out of fuel poverty and putting more money in their pockets to spend in the local economy.<sup>72</sup> He regretted the level of community engagement in deciding how available money should be spent and said that the views of those who are experiencing poverty were not heard.<sup>73</sup> Stephen Boyd of the STUC pointed out that civic Scotland is no longer represented on the governance of local regeneration. He said—

“Our general secretary sits on Scottish Enterprise’s board, but no other figure from the trade union movement or anywhere in civic Scotland currently has any input into the boards that have a locus for economic development in Scotland.”<sup>74</sup>

68. Stephen Boyd also said “we have to make full use of the scope of European procurement law, which allows us to introduce social, environmental and employment concerns into the procurement process”.<sup>75</sup> Jim Boyle agreed that capital projects would have a greater impact if such considerations were taken into account and the views of the local community were sought.<sup>76</sup>

**69. The Committee recognises that a balance must be struck between restoring confidence through clear and detailed capital expenditure plans and retaining some flexibility to stimulate economic recovery. However, it regards the detail set out in the budget regarding the transfer between resource and capital as insufficient at this stage to make any assessment on the merits of what is planned. The Committee would have welcomed greater clarity in this year’s Budget announcement to allow for more effective scrutiny of what has been presented as a major plank of the Scottish Government’s plans for the**

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<sup>69</sup> Scottish Building Federation, *written submission to the Committee*, October 2011, page 1.

<sup>70</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 491.

<sup>71</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 468-469.

<sup>72</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 470.

<sup>73</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 475.

<sup>74</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 476.

<sup>75</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 469.

<sup>76</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 480.

**Spending Review period. Furthermore, there is a lack of clarity as to how firm the plans to transfer resource to capital are at this stage. The Cabinet Secretary for Finance, Employment and Sustainable Growth emphasised that any resource to capital decisions would be taken on an annual basis. This leaves it unclear whether the £750m resource to capital transfer represents a firm commitment at this stage, or a policy aspiration.**

**70. It is also unclear to what extent this shift of resources represents any change on established policy. As discussed in a later section of this report, the Enterprise Agencies have for many years funded a large part of their capital spend from their revenue budgets**

**71. The Committee notes the concern of the Poverty Alliance that the economic benefits of some forms of capital investment are not enjoyed by the majority of people, and may come at a cost borne disproportionately by the poorest.<sup>77</sup>**

**72. The Committee recommends that the Scottish Government make a detailed analysis of the capital projects which could, potentially, be funded by a transfer from resource spending and the costs and benefits – including the social and environmental benefits – of each project. The analysis should be capable of ranking the return for investment – both economically and socially- on each project and should be available for scrutiny by the Parliament before this year’s budget round is complete. Despite the Committee’s request, the Committee notes that the Cabinet Secretary for Infrastructure and Capital Investment did not provide a confirmation on whether or not the use of savings from the Forth Road for the Warm Homes and Future Transfer Fund represents a transfer of revenue to capital budget.**

**73. The Committee would wish to see on a regular basis a written report showing the planned transfer of revenue to capital so that the Committee might make assessment of the impact of what is planned.**

#### **Non domestic rates**

**74. The Scottish Government forecasts non-domestic rates (NDR) income to increase by 13.5% over the Spending Review period, with some of this increase resulting from the introduction of the Public Health Levy on large retail properties that sell both tobacco and alcohol (projected to realise £30m in year one, rising to £40m thereafter). However, a very large part of the forecast increase depends upon estimates of increased occupancy of buildings.**

**75. The Scottish Chambers of Commerce (SCC), in its written submission to the Committee, questioned the Scottish Government’s predictions for growth in business rates revenue.<sup>78</sup> The Cabinet Secretary for Finance, Employment and Sustainable Growth told the Committee that “the figures are founded on the assessment of likely**

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<sup>77</sup> This paragraph was agreed to by division. For: 5 (Gavin Brown, Patrick Harvie, Rhoda Grant, Anne McTaggart and John Wilson), against: 4 (Chic Brodie, Mike, Angus MacDonald, Mackenzie, Stuart McMillan).

<sup>78</sup> Scottish Chambers of Commerce, *written submission to the Committee*, October 2011, page 5

growth in economic activity in Scotland, and I consider them to be robust estimates of the likely revenue that will be raised”.<sup>79</sup>

76.If this level of NDR income is not realised, the Scottish Government is committed to meeting any shortfall through an increased grant to local government. In this respect, Professor John McLaren warned that the growth assumptions “will have been built in before March, since when the growth forecasts have been declining”.<sup>80</sup>

77.The Cabinet Secretary for Finance, Employment and Sustainable Growth, in an [open letter to businesses](#) admitted—

“It is true that some businesses will pay more as a result of my budget - very large retail properties that sell both tobacco and alcohol and some empty premises. I think it is entirely fair and reasonable that other tax payers do not subsidise the owners of empty properties and that large retailers contribute more to tackling the social and health issues associated with alcohol abuse.”

78.He added—

“Aside from these two new proposals and the normal annual inflationary changes in the pence in the pound tax rate (poundage), which is a consequence of setting the same rate as that in England, there is no uplift to existing businesses rates bills”.

79.Witnesses commented on the unfairness which might be held to be inherent in the Scottish Government’s decision to freeze domestic rates (council tax) but increase NDRs.<sup>81</sup>

**80.The committee welcomes the Government’s decision to ensure that the NDR poundage does not rise above that in England.<sup>82</sup> However, it is concerned that deterioration in the economic situation may mean that projected increases in NDR income will not be realised leading to increased requirements for other forms of revenue raising, or for the Scottish Government to increase support to Local Authorities.**

*Public Health Levy for large retailers*

81.The Draft Budget announced that—

“the business rates paid by large retailers who sell tobacco and alcohol products will be increased by a supplement from 1 April 2012. The estimated income raised from this supplement will contribute to the decisive shift in the Spending Review to preventative spend measures to be taken forward by local authorities and their partners in NHS and Scottish Government”.<sup>83</sup>

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<sup>79</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 496.

<sup>80</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 340.

<sup>81</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Cols 333, 354.

<sup>82</sup> Patrick Harvie recorded his dissent to this sentence.

<sup>83</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 226

82. The Scottish Government has said that the levy will represent 0.1 per cent of retail turnover in Scotland.<sup>84</sup> This equates to £30-40m per year. Ian Shearer of the Scottish Retail Consortium (SRC) argued that “that figure is not relevant, because it refers to the turnover of all retailers in Scotland, which is about £25 billion a year”.<sup>85</sup>

83. The Committee has sought to quantify the impact of a growing NDR burden on firms’ ability to grow. Professor McLaren pointed out that “there is...not necessarily a straight crossover between growth and growth in non-domestic rates” but regretted the uncertainty that would be created by altering the rates regime. Ian Shearer argued in relation to the health levy that “tilting the playing field to keep larger businesses at bay”<sup>86</sup> may have unintended consequences and result in less money rippling out to small businesses. On the other hand, Colin Borland of the Federation of Small Businesses said that “any moves to level the playing field...would be welcomed”.<sup>87</sup>

84. Ian Shearer spoke of the “profound anger among the companies that are affected” by the proposed health levy and referred to the Cabinet Secretary for Finance, Employment and Sustainable Growth’s previous statement that the Scottish Government had no plans to introduce a large retail supplement. He warned that the health levy policy could result in large increases to the rates bills of some businesses with just six months’ notice.<sup>88</sup> In its written submission, CBI Scotland said that it was extremely alarmed at the decision and, again, regretted the lack of detail in the budget document. It went on to argue that the levy is inconsistent with the Scottish Government’s stated views on a competitive tax regime for Scotland<sup>89</sup> and represents a break with the Scottish Government’s promises on poundage rate parity with the rest of the UK. In written and oral evidence, the CBI called for a Business and Regulatory Impact Assessment (BRIA) of the policy.<sup>90</sup>

85. Referring to the health levy, the Wine and Spirit Trade Association regretted that “the Scottish Government failed to consult with retailers in advance of the tax being announced”. It estimates that—

“The additional tax at £40million per year as proposed will effectively mean that those retailers subject to the tax will need to make additional sales of around £1billion (excluding VAT) to recoup the costs of the additional tax to their business, given low supermarket margins”.<sup>91</sup>

86. SCDI was “very disappointed by the complete lack of consultation by the Scottish Government in relation to its proposed public health levy on large retailers of both tobacco and alcohol, and the absence of an associated Business and Regulatory Impact Assessment”.<sup>92</sup>

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<sup>84</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 485.

<sup>85</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 359.

<sup>86</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 354.

<sup>87</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 356.

<sup>88</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 351.

<sup>89</sup> The Scottish Government, [The Government Economic Strategy](#), 2011, page 37.

<sup>90</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 355.

<sup>91</sup> Wine and Spirit Trade Association, *written submission to the Committee*, October 2011, page 1.

<sup>92</sup> SCDI, *written submission to the Committee*, October 2011, page 7.

87. On the question of affordability and the potential to affect investment decisions, Ian Shearer argued that supermarkets tend to have lower margins than smaller businesses and, therefore, the levy could impact on marginal investment decisions by those businesses. The Wine and Spirit Trade Association echoed this concern. It said the levy would: “influence future investment decisions, making investment in Scotland less attractive relative to other locations”.<sup>93</sup> Similarly, the Scottish Wholesale Association said “the anticipated levy would substantially affect the viability of the small number of wholesale outlets in Scotland” and was concerned about the knock-on effect for small businesses, adding “potentially reducing access to products for small family businesses throughout all regions and areas of the Country”.<sup>94</sup> The Scottish Property Federation, in its written submission cited “over-regulation” as a threat to economic growth, specifying the health levy as an example.<sup>95</sup> The British Council of Shopping Centres echoed concerns regarding investment in Scotland.<sup>96</sup>

88. A range of witnesses expressed the concern that the levy marked a precedent which could be extended to, for example, small retailers of tobacco or alcohol or, indeed, “unhealthy” foods.<sup>97</sup>

89. The STUC however, endorsed the Scottish Government’s plans to introduce the levy in its written submissions. The STUC described it as a “reasonable and proportionate measure”. The Federation of Small Businesses welcomed the potential of this measure to help “address the imbalance in the rates burden between small and large businesses”.<sup>98</sup>

**90. The Committee welcomes the introduction of the public health levy on large retailers, believes that any measure to reduce the consumption of cigarettes and alcohol is to be welcomed and concludes that the impact on investment decisions and on employment levels appears likely to be minimal.**<sup>99</sup>

**91. The Committee calls on the Scottish Government to monitor the impact of the levy on sales of the targeted products, and to report back to Parliament within 18 months on the effectiveness of the measures in terms of (a) public health (b) revenue generation and (c) employment in the retail sector.**<sup>100</sup>

*Assessing the impact of the Public Health Levy for large retailers*

92. Written submissions from The Wine and Spirit Trade Association, SCDI, Scottish Chambers of Commerce, the Scottish Retail Consortium and CBI all called on the Scottish Government to carry out a Business and Regulatory Impact Assessment on the Public Health Levy in accordance with the Scottish Government’s own [guidance on BRIAs](#), which states “All policy changes, whether European or domestic, which

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<sup>93</sup> Wine and Spirit Trade Association, written submission to the Committee, October 2011, page 1.

<sup>94</sup> Scottish Wholesale Association, *written submission to the Committee*, October 2011, page 1.

<sup>95</sup> Scottish Property Federation, *written submission to the Committee*, October 2011, page 1.

<sup>96</sup> British Council of Shopping Centres, *written submission to the Committee*, October 2011, page 1.

<sup>97</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Cols 356-357

<sup>98</sup> Federation of Small Businesses, *written submission to the Committee*, October 2011, page 2.

<sup>99</sup> This paragraph was agreed to by division. For: 6 (Patrick Harvie, Chic Brodie, Angus MacDonald, Mike Mackenzie, Stuart McMillan, John Wilson), Against: 3 (Rhoda Grant, Anne McTaggart, Gavin Brown).

<sup>100</sup> Chic Brodie recorded his dissent to this paragraph.

may have an impact upon business or the third sector, should be accompanied by a Business and Regulatory Impact Assessment (BRIA).<sup>101</sup>

93. John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth, told the Committee that the advice he received from his officials led him to conclude that the measure would be “affordable and sustainable” and that he did not “consider the levy will damage employment”<sup>102</sup> He explained that he had decided not to conduct a BRIA because “as the effect will be on 0.1 per cent of retail turnover, such an assessment would be disproportionate”<sup>103</sup> He added that he would consider the request to carry out a BRIA, which was put to him by the Committee.

**94. The Committee notes the Cabinet Secretary for Finance, Employment and Sustainable Growth’s assurances regarding the impact of the public health levy for large retailers on employment levels and profitability.**

**95. The Committee accepts that a business and regulatory impact assessment of the measure is not necessary on this occasion as the anticipated impact on businesses will be minimal.**<sup>104</sup>

#### *Wider incentives through NDRs*

96. The Committee also heard evidence on the concept that NDRs might be used to incentivise businesses to make ethical decisions, such as paying the living wage or procuring goods and services locally. Professor John McLaren suggested that, if business rates were under the control of local government, “a more imaginative approach could be adopted that was suited to the local area”, while Bill Jamieson argued that “piling another layer of social and ethical agendas on to companies, on top of what they already do” might not be helpful to businesses.<sup>105</sup>

**97. The Committee can see merit in empowering local authorities to take a degree of control of some aspects of business rates and welcomes the discussions taking place between the Scottish Government and COSLA on the introduction of a Business Rates Incentivisation Scheme (BRIS).**

#### **Budget proposals for the Enterprise Agencies**

98. The Enterprise Policy and Delivery budget line accounts for the largest proportion of the budget within the Committee’s remit and includes the budgets for Scottish Enterprise (SE) and Highlands and Islands Enterprise (HIE). Although there is an increase in this budget line of 7.8% in real terms over the Spending Review period, this largely reflects the merging of three budget lines from 2012-13 onwards. If the combined budgets of Enterprise Policy & Delivery, Industry & Technology Grants and Scottish Development International (SDI) are considered, the budget falls by 4.6% in 2012-13 and by 7.3% in real terms over the Spending Review period.

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<sup>101</sup> Scottish Government website. Available at: <http://www.scotland.gov.uk/Topics/Business-Industry/support/better-regulation/partial-assessments>

<sup>102</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 485-486.

<sup>103</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 486.

<sup>104</sup> This paragraph was agreed to by division: for 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson) Against 3 (Gavin Brown, Rhoda Grant, Anne McTaggart).

<sup>105</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 332.

99. For the Spending Review period, HIE's budget remains flat in cash terms, following reductions in its budget in earlier years. SE's budget reduces by 4.6% in cash terms over the Spending Review period. However, comparisons of the enterprise agencies' budgets over time are complicated by changes in the responsibilities of the agencies which have occurred, such as the transfer of RSA and SMART grants to SE in 2011-12 and the transfer of the urban regeneration companies' budget away from SE in 2012-13.

**Table 8: SE/ HIE Grant-in-aid (excluding non-cash)**

|                    | Cash prices |           | 2011-12 prices |           |
|--------------------|-------------|-----------|----------------|-----------|
|                    | SE<br>£m    | HIE<br>£m | SE<br>£m       | HIE<br>£m |
| 2008-09            | 236         | 62        | 254            | 67        |
| 2009-10            | 250         | 59        | 264            | 62        |
| 2010-11            | 201         | 55        | 207            | 56        |
| 2011-12            | 240         | 48        | 240            | 48        |
| 2012-13            | 231         | 48        | 225            | 47        |
| 2013-14            | 231         | 48        | 220            | 46        |
| 2014-15            | 229         | 48        | 212            | 45        |
| 2011-12 to 2012-13 | -3.8%       | 0.0%      | -6.2%          | -2.4%     |
| 2011-12 to 2014-15 | -4.6%       | 0.0%      | 11.7%          | -7.5%     |

**Source: SPICE**

100. The Committee sought an explanation for the apparently steeper decline in HIE's budget compared with that of SE between 2008 and the current financial year (£62m to £48m compared to a rise from £236m to £240m respectively). Forbes Duthie of HIE, said "We are not aware of any particular shift in funds".<sup>106</sup>

101. The Cabinet Secretary for Finance, Employment and Sustainable Growth told the Committee that "the budget for Highlands and Islands Enterprise had been boosted by a variety of one-off interventions in the period around 2006-07" and "If we look at the trend budget on core activities for the respective enterprise companies, notwithstanding the structural changes that have been undertaken in the period since this Government was elected, we see that the pattern of change is broadly comparable".<sup>107</sup>

102. The Draft Budget also sets out a requirement for the partners of the Strategic Forum (SE, HIE, VisitScotland, Skills Development Scotland and the Scottish Funding Council) to find savings of £20m/£25m/£40m (in cash terms) over the years 2012-13 to 2014-15. It is not yet clear how these savings will impact on the individual bodies, but these required efficiencies will have a further negative impact on the Enterprise Policy and Delivery budget.

*The agencies' contribution to shifting revenue to capital*

103. The Draft Budget states that—

<sup>106</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 410.

<sup>107</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 490.

“The Enterprise budget is focused on supporting growth companies, sectors and markets. Scottish Enterprise and Highlands and Islands Enterprise will have the flexibility to use resource budget to support capital programmes in pursuit of these objectives”.

104. Figures provided by the enterprise agencies at the request of the Committee show that some £256m of resource budget will be transferred to capital within the enterprise agencies’ budgets over the Spending Review period. As such, the enterprise agencies account for one-third of the Scottish Government’s proposed £750m resource to capital transfer.

105. Scottish Enterprise’s initial submission revealed a decline in the grant-in-aid allocated for capital expenditure. Alex Paterson (Chief Executive, HIE) and Lena Wilson (Chief Executive, SE) both maintained that their organisations had always utilised the facility to shift resource budget into capital expenditure as a matter of course and that 2012-13 would be no different.<sup>108</sup> Alex Paterson gave specific examples of projects in the HIE area which would require capital: the campus project in Inverness and the marine science park in Argyll. Key capital projects for SE are ports infrastructure for renewable energy, the international technology and renewable energy zone (ITREZ) project, Edinburgh Bioquarter and the Scottish Exhibition and Conference Centre. Lena Wilson confirmed that—

“For the spending review period, the capital element of our cash budget totals about £66.9 million, but our planned capital expenditure will be in the region of £300 million”.<sup>109</sup>

106. Regrettably, no detail was provided within Scottish Enterprise’s initial written submission on moving resource budget into capital. The Committee had wished to establish which revenue lines would be affected by the transfer.

107. Lena Wilson argued that “it is not a question of not doing something because we are spending on capital” and added “we will still be supporting sectors and companies as they become more competitive and we will be using capital as a way to do that, for example by investing in port infrastructure”.<sup>110</sup> Iain Scott, Director of Finance at SE elaborated by saying—

“the big change this year is that we have been given more revenue budget and less capital budget than we have had in the past. Overall, the total is almost exactly the same and because we can switch from revenue to capital we can maintain our capital expenditure at the same level as we always have”.

108. He denied that there would be a reduction in what would be achieved through the agency’s expenditure through the reassignment of resource budget to capital.<sup>111</sup> Lena Wilson reiterated “this year is no different from any other”.<sup>112</sup>

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<sup>108</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 379-380.

<sup>109</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 380.

<sup>110</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 381.

<sup>111</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 381.

<sup>112</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 384.

109. The Committee requested further detail on the Enterprise agencies' plans. The table below shows the impact of the agencies' planned resource to capital transfer:

**Table 9: Impact of the planned resource to capital transfer in the enterprise agencies**

|                            | SG<br>allocation<br>for<br>capital<br>£m<br><b>A</b> | Other<br>capital<br>income<br>£m<br><b>B</b> | Actual /<br>planned<br>capital<br>spend<br>£m<br><b>C</b> | Resource<br>to capital<br>transfer<br>£m<br><b>D</b> | Transfer<br>as % of<br>resource<br><b>E</b> | SG<br>allocation<br>for<br>resource<br>£m<br><b>F</b> | Resource<br>budget<br>adjusted<br>for<br>transfer<br>to capital<br>£m<br><b>G</b> |
|----------------------------|--|--|---|--|---|---|---|
| 2010-11                    | 15.0   | 40.1   | 106.2   | 51.1   | 20%   | 253.6   | 202.5   |
| 2011-12                    | 85.6   | 60.4   | 185.3   | 39.3   | 18%   | 214.0   | 174.7   |
| 2012-13                    | 60.7   | 56.0   | 183.6   | 66.9   | 29%   | 231.3   | 164.5   |
| 2013-14                    | 26.2   | 56.8   | 169.8   | 86.8   | 33%   | 266.0   | 179.3   |
| 2014-15                    | 8.9  | 42.4   | 153.2   | 101.9  | 36%   | 281.3   | 179.4   |
| <b>Total for SR period</b> | <b>95.8</b>  | <b>155.2</b>                                 | <b>506.6</b>  | <b>255.6</b>   | <b>33%</b>                                  | <b>778.6</b>  | <b>523.2</b>  |

Note: Other capital income includes receipts from capital disposals and the Scottish Loan Fund / Co-investment Fund

Source: SPICe

110. The table shows the Scottish Government's capital allocation to the agencies (column A) as well as other sources of capital funding (column B). In order to support planned capital expenditure over the Spending Review period, the agencies plan to transfer a total of £256m from their resource budgets to capital budgets over the Spending Review period (column D). As the table shows (column E), these transfers will account for an increasing share of the agencies' resource budgets. The table confirms that the practice of transferring resource budgets to capital is not new, evident from the pre-Spending Review years shown in the table.

111. Even once these transfers are taken into account, the capital expenditure plans of the agencies still show a fall of 17% in cash terms between 2011-12 and 2014-15 (column C), equivalent to a 24% fall in real terms. This highlights that the resource to capital transfers will not be sufficient to maintain capital spending at its current level.

112. In evidence to the Committee, the agencies highlighted that because their resource budgets are increasing over the Spending Review period, they are able to make transfers to their capital budget without negatively impacting on their resource budgets. Table 9 (column G) shows that, in cash terms, the resource budgets after allowing for transfers rise by 3% through the Spending Review period (after a fall in 2012-13). However, in real terms, there is a fall of 5% in the adjusted resource budget between 2011-12 and 2014-15.

113. The Cabinet Secretary for Finance, Employment and Sustainable Growth told the Committee that transfers between resource and capital budgets were not automatic and it was necessary to undertake a process to achieve them. He argued therefore, that plans to make such transfers in 2012-13 represented a deliberate policy decision on the part of Government.<sup>1</sup>

**114. The Committee welcomes the Scottish Government's commitment to maintain capital spending as far as possible, in the context of a 36.7% cut to the Scottish Government's capital budget over the spending review period.<sup>2</sup>**

**115. The evidence we have taken and the follow-up data provided to us from the enterprise agencies reveals that the practice of transferring revenue budget into capital is a matter of routine and has been carried out in recent years without special mention.**

**116. While the Committee accepts that the transfer of resource budget to capital is just one of a range of measures designed to boost capital spending in Scotland, the evidence would suggest that capital expenditure over the Spending Review period will be approached in the same way as in previous years.**

*Impact methodology in the agencies*

117. The Committee also sought to examine the methodologies used to determine the impact of expenditure by the enterprise agencies and how this informs decisions on what interventions to fund.

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<sup>1</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 489.

<sup>2</sup> This paragraph was agreed to by division: for 5 (Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson) Against 4 (Gavin Brown, Rhoda Grant, Patrick Harvie, Anne McTaggart).

118. Scottish Enterprise's written submission to the Committee states—

“our assessment, drawing on independent evaluation and appraisal evidence, shows that our current proposals for 2012/13 to 14/15 would lead to a cumulative impact of between £5bn and £7.5bn of net additional GVA for the Scottish economy over the next 10 years, an investment ratio on total spend of between 6 and 9 to 1. They will also contribute significantly to job creation, where our analysis also shows that our investment would deliver between 13,000 to 19,000 additional jobs by 2015”.

119. The Committee queried the basis of these conclusions, given that Scottish Enterprise had not provided the Committee with any detail on how planned expenditure would be split between capital and revenue.

120. Alex Paterson said that HIE had “changed the measures in this year's operating plan to get a better handle not just on what of how much we are doing but on what difference we are making”.<sup>3</sup>

121. Scottish Enterprise, HIE and VisitScotland, at the request of the Committee supplied further information on their methodologies for calculating return on investment.

122. HIE's performance measurement focuses on a set of key measures relating to sales, turnover, jobs created, support for social enterprises and growth plans implemented within supported businesses. HIE do collect data with which to calculate GVA, but choose not to use this as a reporting measure as it is “less widely understood than that of turnover or jobs supported”.<sup>4</sup>

123. SE provided more details of its economic impact assessment and evaluation of its interventions. It said—

”to assess the potential economic benefits for Scotland of our activities, we undertake a rigorous programme of evaluation and appraisal. This provides us with robust evidence of economic impacts and of ‘what works’ and is used to inform policy development and to prioritise our proposed investments and spending plans.

Using this evidence, we have developed an ‘economic impact model’ to allow us to assess the potential impact of our overall business plan. The model is currently based on and uses 74 sources of evidence, of which 46 are appraisals of the potential impacts of projects that have just or recently begun, and 28 are evaluations of projects that have been running for some time (so enough time has elapsed for an evaluation to take place). The model aggregates the data from these individual evaluations and appraisals to provide an overall assessment of the impacts of our business plan proposals”.<sup>5</sup>

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<sup>3</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 398

<sup>4</sup> HIE, *written submission to the Committee*, 2 November 2011, page 5.

<sup>5</sup> SE, *written submission to the Committee*, 2 November 2011, page 2.

124. **The Committee notes the written and oral evidence on the methodologies used by the enterprise agencies to evaluate impact and inform future investment decisions.**

125. **While the Committee notes the differences in the remits of the enterprise agencies, it would like to see greater consistency in the way this work is approached.**

#### *Regional Selective Assistance*

126. Regional Selective Assistance (RSA) grants are used by Scottish Enterprise to encourage firms to invest in the creation or safeguarding of jobs. Concern was expressed that firms accept the grants, then pull out once they expire and the money might, therefore, be better utilised elsewhere. Lena Wilson admitted that this had happened in a minority of cases. She pointed out, however, that a number of factors influenced this and that rigorous claw back measures existed.<sup>6</sup>

127. Stephen Boyd of the STUC argued that “we must stipulate minimum returns in respect of employment standards” when awarding RSA grants. He added—

“If we give grants to the Amazons and Ryanairs of this world, we want the jobs to be sustainable and decent. Simply shouting about 1,000 new jobs in the Scottish economy will not cut it in the longer term, to be frank. Amazon’s behaviour at its plant in Greenock involved some of the worst employment standards in the UK economy. The Scottish Government should not be in the business of supporting such employment”.<sup>7</sup>

#### *Scottish Development International*

128. Scottish Development International (SDI) is the lead public body responsible for working towards the Scottish Government’s target to increase international exports by 50% by 2017. Its budget will increase by £5.5m to £37.8m in 2012-13 (compared with £32.3m in 2011-12).

129. Anne MacColl, Chief Executive of SDI, emphasised the importance of growing exports and increasing inward investment to Scotland’s economic recovery. She outlined the methodologies SDI use to evaluate the success of its interventions. For inward investment, the key output measure is the number of high value jobs created, defined as those paying more than 20 per cent higher than the average salary in Scotland.<sup>9</sup> She confirmed that, in her view, adequate infrastructure existed in Scotland to make the achievement of the 50% target possible.<sup>10</sup>

130. She said that new opportunities were driven by the market and it was not possible to anticipate the division of expenditure between internationalisation and inward investment.

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<sup>6</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 399-400.

<sup>7</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 472.

<sup>8</sup> An additional paragraph was proposed at this point in the report. The paragraph was disagreed to by division: For 3 (Patrick Harvie, Rhoda Grant, Anne McTaggart). Against 6 (Chic Brodie, Gavin Brown, Angus MacDonald, Mike MacKenzie, Stuart McMillan, John Wilson).

<sup>9</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 394.

<sup>10</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 405.

*Views on the quality of the data and evidence provided to the Committee by the enterprise agencies and SDI*

**131. The Committee is disappointed at the level of detail provided by Scottish Enterprise, Scottish Development International and Highlands and Islands Enterprise in their responses to the Committee’s call for evidence. This seems to be a retrograde step compared to the progress made in previous years.**

**132. While we appreciate that timescales are tight, we recommend that the agencies provide more detail on specific spending programmes and priorities for investment and set out the anticipated balance between revenue and capital expenditure.**

### **Tourism and VisitScotland**

133. The tourism line in the Draft Budget will increase by 16.8% in real terms in 2012-13 and 13.5% in real terms over the course of the Spending Review period. This reflects additional, one-off spending associated with the Ryder Cup, the Olympic and Commonwealth Games and the next Year of Homecoming. Accordingly, VisitScotland’s budget will receive an increase of £7.34m in 2012-13 compared with 2011-12 to capitalise on the opportunities associated with these events.

134. VisitScotland’s written submission reports that “recent figures show that tourism grew in Scotland in the first six months of this year - four per cent up on visitor numbers and three per cent up on spend in very challenging economic conditions”. It argues that “investment in tourism is an investment in economic recovery, growth and jobs”. Its submission described the opportunities for tourism offered by the 2014 Ryder Cup, the Glasgow Commonwealth Games, the London Olympic Games, and the next Homecoming as the “Winning Years”. However, during questioning, VisitScotland agreed that tourism visitors and tourism spending in Scotland had shown little or no growth over the last decade.

135. Regrettably, VisitScotland’s initial written submission offered little detail on specific initiatives it intended to undertake. The following evidence was, however, provided in written supplementary evidence at the request of the Committee:

**Table 10: VisitScotland 2012/13 Indicative Resource Deployment and Benefit**

| Campaigns/<br>Activity    | Net Resource<br>DEL spend<br>£ millions | Indicative<br>Return<br>£ millions | Basis of<br>Measurement                                       | Source  |
|---------------------------|---|------------------------------------|---|---|
| Marketing<br>Campaigns    | 20                                      | 440                                | Additional<br>Expenditure by<br>Visitors/GVA*                 | HPI, Ruby,<br>TNS, Deloitte                             |
| Business<br>Tourism Unit  | 3                                       | 140                                | Value of<br>Enquiries   | VisitScotland<br>CRM/ Delegate<br>Expenditure<br>Survey |
| Quality<br>Assurance      | 1                                       | 70                                 | Investment in<br>Product Quality<br>by Scottish<br>Businesses | TNS, Optimal<br>Economics                               |
| Event Scotland            | 5                                       | 60                                 | Economic<br>Impact  | Various incl.<br>Repucom,<br>EKOS                       |
| Visitor<br>Information    | 5                                       | 25                                 | Economic<br>Impact  | Progressive   |
| Future Events             | 5                                       | ---                                | ---   | ---   |
| Support and<br>Governance | 8                                       | ---                                | ---   | ---   |

**Source: VisitScotland**

136. The Committee also sought more detail on the specific initiatives that would be undertaken with VisitScotland's enhanced budget in 2012-13 and what targets it attached to these plans. VisitScotland provided, again only at the Committee's request, a more detailed written breakdown of the key initiatives that would be funded by the expanded budget. There were:

the Year of Creative Scotland and The Olympic Games in 2012;

the Year of Natural Scotland in 2013;

the Commonwealth Games, The Ryder Cup and Homecoming Scotland in 2014;

the 2014 Ryder Cup and continued marketing activity to promote Scotland as the Home of Golf;

Homecoming Scotland 2014;

Business tourism;

Direct access - VisitScotland will seek to expand on existing partnerships and cement new relationships with transport carriers, including rail, sea and air.

building on the success of the staycation market with the expansion of its ‘Surprise Yourself’ campaign.

137. Despite the opportunities for growth which were anticipated, the Chief Executive of VisitScotland stated that the Scottish Government’s target to increase tourism revenue by 50% by 2015, as outlined in [Scottish Tourism: The Next Decade](#), “will not be achieved”.<sup>11</sup> During oral evidence to the Committee, Malcolm Roughead, Chief Executive of VisitScotland, described this as “an ambition rather than a target” and added that “it would be naïve to expect that in the next three to four years”.<sup>12</sup>

138. In contrast, the Cabinet Secretary for Finance, Employment and Sustainable Growth, in oral evidence to the Committee, said that “I am happy to confirm to you that we have not scrapped it [the 50% target]” and added that, while the industry did face significant challenges associated with the global economic situation, recent statistics on visitor numbers were showing an improvement and “governments should not run around changing targets at the first sign of trouble”.<sup>13</sup>

139. The STUC, in its written evidence to the Committee, recommended that the extra resources allocated to VisitScotland should be “devoted to improving the quality and sustainability of employment in the sector”.<sup>14</sup>

**140. The Committee notes the Cabinet Secretary for Finance, Employment and Sustainable Growth’s continued commitment to the 2005 target contained in Scottish Tourism: The Next Decade, to increase tourism revenue by 50% by 2015.**

**141. Nevertheless, the Committee seeks clarification on the status of the target, what interim targets are in place and what strategy will be implemented given the clear indication given by VisitScotland’s Chief Executive that the target is unachievable and that it would be naïve to think otherwise.**

#### *Impact methodology*

142. VisitScotland’s written submission stated “with all of VisitScotland’s marketing campaigns we work to achieve a return of £20 of additional expenditure for every £1 spent on marketing”.

143. Malcolm Roughead outlined the method by which return on investment is calculated for VisitScotland’s expenditure on specific campaigns. With so many other factors at play, it is difficult to evaluate the impact of VisitScotland’s activity on the entire industry. In follow up written evidence to the Committee, VisitScotland said that it—

“measures additionality, i.e. the additional spend in the Scottish economy by visitors who were influenced to come to Scotland as a result of VisitScotland’s campaigns. In order to ensure results are objective, an independent research agency is appointed by VisitScotland to contact people who have interacted with VisitScotland through one of their marketing channels e.g. they may have

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<sup>11</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 393.

<sup>12</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 393

<sup>13</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 488.

<sup>14</sup> STUC, *written submission to the Committee*, October 2011, page 4.

received a piece of direct mail, responded to receive a brochure or entered a competition. They are asked whether they travelled to Scotland in the campaign period, what stage of planning their trip they were at (those who were already definitely coming are disregarded) and their spend whilst in Scotland. Only those who can recall VisitScotland marketing and were not definitely coming when they interacted with VisitScotland marketing are included in the final additional expenditure calculation. The economic impact figure (GVA) is based on multiplier effects”.<sup>15</sup>

## Energy

144. The energy line in the Draft Budget shows an increase of 81.3% in real terms in 2012-13 and 60.4% over the course of the Spending Review period. The Draft Budget document refers to spending of £300m on energy-related projects (including £200m on renewables) over the Spending Review period. The document also refers “a new £60m capital budget [to] be allocated to renewable energy proposals, including to SE and HIE over and above their agreed expenditure lines, to support inward investment developments in offshore wind and support for marine energy projects and infrastructure”.<sup>16</sup>

145. The following table was provided by the Scottish Government by way of elaboration—

**Table 11: Planned energy expenditure**

| Which baseline?  | 2012/13<br>£m | 2013/14<br>£m | 2014/15<br>£m | Total<br>£m  |
|--|---------------|---------------|---------------|--------------|
| Scottish Enterprise  | 52.4          | 41.9          | 26.5          | 120.8        |
| Highlands and Islands Enterprise                           | 8.3           | 2.4           | 0.5           | 11.2         |
| Scottish Government additional capital spend on renewables | 5.0           | 20.0          | 35.0          | 60.0         |
| Scottish Government spend on other energy programmes       | 59.3          | 36.2          | 25.0          | 120.5        |
| <b>TOTAL</b>   | <b>125.0</b>  | <b>100.5</b>  | <b>87.0</b>   | <b>312.5</b> |
| <b>Of which TOTAL spend on renewables</b>                  | <b>95.0</b>   | <b>72.5</b>   | <b>67.0</b>   | <b>234.5</b> |

**Source: Scottish Government**

### *Support for Renewables*

146. Niall Stuart, Chief Executive of Scottish Renewables, referred to the £50 billion pipeline of renewables and renewables-related infrastructure projects, which will be funded primarily by the private sector. He then set out the key public strategic investments that would be necessary to “maximise the economic, employment, social and environmental benefits of renewables”.<sup>17</sup> He quantified the opportunity as follows—

“If Scotland is to build the 10GW of offshore wind agreements that developers have signed with the Crown Estate, which will require an investment of about £30 billion. In the United Kingdom as a whole, there are agreements for some 45GW

<sup>15</sup> VisitScotland *written submission to the Committee*, October 2011, page 3.

<sup>16</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 94.

<sup>17</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 413.

at £3 billion per gigawatt. That is a market of more than £120 billion to develop over the coming years”.<sup>18</sup>

147. The STUC said that “a key objective of renewables development must be to increase the level of manufacturing output and employment across Scotland”.<sup>19</sup> During oral evidence, Stephen Boyd of the STUC argued for a greater emphasis on community schemes which would generate income for local use.<sup>20</sup>

148. Niall Stuart saw merit in the Tax Incremental Finance (TIF) model for funding renewables projects, in business rates incentivisation and in the enterprise areas the Government has indicated it will consider. He stressed the importance of Government investment in key ports and harbours to enable Scotland to compete in “an incredibly competitive international market”.<sup>21</sup>

149. Niall Stuart was optimistic about Scotland’s global position in the development of renewable energy, citing the investment of major multinationals (e.g. Mitsubishi, Doosan and Gamesa) in Scotland and the facts that Scottish and Southern Energy and Iberdrola have each based their headquarters for offshore engineering in Scotland.<sup>22</sup>

150. On the question of skills in the renewables sector, Niall Stuart felt that shortages existed and that these could become more acute. He saw a role for public sector support of training courses in the sector and called for good careers advice, starting in school and for those looking to retrain.<sup>23</sup>

151. Niall Stuart said that the priority for Scottish Renewables’ members was to secure large scale manufacturing in Scotland. He did not have strong views on the role for local authority financing but said “there is no doubt that local authorities can do a huge amount more to generate revenue through investing in their estate to deploy small-scale solar and wind power and ground and air-source heat pumps”.<sup>24</sup> Stephen Boyd agreed that local authorities might have a role to play in local schemes such as the upgrading of the harbour at Scrabster to prepare them for private sector investment in the sector.<sup>25</sup>

152. The Cabinet Secretary for Finance, Employment and Sustainable Growth confirmed that he encouraged local authorities to undertake prudential borrowing, but did not specify the purpose for which it was used.<sup>26</sup>

153. Although Niall Stuart felt that the National Renewables Infrastructure Fund (NRIF)<sup>27</sup> represented a small proportion of the overall investment required, he reported that his industry is “comfortable with and hugely supportive of the commitments that

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<sup>18</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 418.

<sup>19</sup> STUC, *written submission to the Committee*, page 3.

<sup>20</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col

<sup>21</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 415.

<sup>22</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 415.

<sup>23</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 416, 421.

<sup>24</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 418.

<sup>25</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 475.

<sup>26</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 494.

<sup>27</sup> The NRIF was announced by the Scottish Government in 2010 to support improvements to ports to make them ready to accommodate large, offshore wind structures.

the Government has made”. He added that ports and harbours were aware of the potential returns on investments they could make to make sites ready for renewables-related manufacturing.<sup>28</sup> Stop Climate Change Chaos Scotland also welcomed the Scottish Government’s commitment.<sup>29</sup>

**154. The Committee welcomes the commitment to renewable energy that the Scottish Government is demonstrating through the draft budget. The Committee notes, however, the challenging targets that it has set both for renewable energy generation and the reduction of carbon emissions. The Committee gives notice that it will examine the Scottish Government’s target for renewable energy generation in greater detail in the session ahead.**

**155. The Committee would encourage the use of prudential borrowing by local authorities in order to fund investment in their estates to adopt small-scale generation. This would have the benefit of providing income and stimulating demand for such technologies, with a view to producing economies of scale.**

### **Fuel Poverty**

156. The Scottish Government is committed, under the Warm Homes and Energy Conservation Act of 2000, to “eradicate fuel poverty as far as is reasonably practicable by 2016”.

157. On 5 October 2011, Alex Neil, Cabinet Secretary for Infrastructure and Capital Growth, announced plans for spending on fuel poverty, including an additional £5m for 2011-12. The following table sets out the funding allocated for the three spending review years, compared with previous years.

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<sup>28</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 423 – 242.

<sup>29</sup> Stop Climate Change Chaos Scotland, *written submission to the Committee*, October 2011, page 4.

**Table 12: Fuel poverty budgets**

|         | £m<br>Cash prices | £m<br>2011-12 prices | % change on<br>previous year<br>(real terms) |
|---------|-------------------|----------------------|--|
| 2006-07 | 56.5              | 64.3                 | -  |
| 2007-08 | 45.9              | 50.8                 | -21%   |
| 2008-09 | 45.9              | 49.4                 | -3%  |
| 2009-10 | 65.9              | 69.8                 | 41%  |
| 2010-11 | 70.9              | 73.0                 | 4%   |
| 2011-12 | 54.5              | 54.5                 | -25%   |
| 2012-13 | 65.0              | 63.4                 | 16%  |
| 2013-14 | 65.0              | 61.7                 | -3%  |
| 2014-15 | 66.3              | 61.3                 | -1%  |

**Source: SPICe**

158. In 2012-13, fuel poverty initiatives will receive a significant increase in funding compared with 2011-12, but will still be allocated less than at its peak in 2010-11.

159. Two budget lines are specifically aimed at targeting fuel poverty. These are the fuel poverty budget within the 'Supporting Sustainability' budget line and the new Warm Homes Fund, which forms part of the Scottish Futures Fund.

**Table 13: Fuel poverty budget, £m**

|                 | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|-----------------|---------|---------|---------|---------|
| Fuel poverty    | 54.5    | 65.0    | 65.0    | 66.3    |
| Warm Homes Fund | ..      | 3.3     | 7.8     | 18.8    |

**Source: SPICe**

160. In addition to the sums allocated to tackle fuel poverty, £18.7m is allocated for in 2012-13 for domestic energy efficiency. The Cabinet Secretary for Infrastructure and Capital Investment confirmed that not all of the £18.7m sum would go to those in fuel poverty saying, "I would not like to put a precise figure on it".<sup>30</sup>

161. Norman Kerr of Energy Action Scotland told the Committee that he estimated that the sum required to meet the Scottish Government's target to eradicate fuel poverty by 2016 (as set out in its 2002 [fuel poverty statement](#)) is £200m per annum. He added that the majority of this sum should come from the public purse and therefore, "we are looking for the Scottish Government to come forward with at least £100 million per year if we are to reach our 2016 fuel poverty target".<sup>31</sup> The Existing Homes Alliance, in its written submission, echoed the call for Scottish Government funding of "at least" £100 million per year.<sup>32</sup> WWF Scotland concurred, pointing out that the allocation is "far short of a figure of at least £100m that we believe is required

<sup>30</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 510.

<sup>31</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 426.

<sup>32</sup> Existing Homes Alliance, *written submission to the Committee*, October 2011, page 2.

to meet our climate and fuel poverty targets”.<sup>33</sup> WWF and Stop Climate Chaos Scotland both called for a budget amendment in order to meet the Scottish Government’s legally binding climate change targets.<sup>34</sup>

162. Norman Kerr reminded the Committee that the other sources of funding which exist to tackle fuel poverty – the Carbon Emissions Reduction Target (CERT) programme and the Community Energy Saving Programme (CESP) are funded by a levy on fuel bills. Furthermore, it was difficult to obtain precise figures on what had been spent by energy companies under those schemes in Scotland although “we know that the companies are missing their targets by a considerable amount”.<sup>35</sup>

163. Norman Kerr asserted that demand reduction represented the key to meeting fuel poverty targets, through a mix of retrofitting to improve efficiency, micro renewables and more efficient heating systems. He said “we need to move in that direction if we are to reduce the overall cost to the consumer through energy bills”.<sup>36</sup> He added that economies of scale were to be found on micro renewable measures such as solar panels and said “the Scottish Government must lead the way on that”.<sup>37</sup>

164. He also regretted the fact that a flat sum is taken from energy customers to fund environmental programmes, regardless of the level of use, rather than being applied progressively. Andrew Faulk of Consumer Focus Scotland, agreed. He said—

“a flat-rate increase on everyone’s bills...means that the lower users pay more. If someone tries to reduce their bills by cutting back, they have to cut back a long way to make a substantial difference. That exacerbates the extent to which people are in fuel poverty and they will suffer more deeply because of it”.<sup>38</sup>

165. The latest Scottish House Condition Survey revealed that the private rented sector was the poorest in terms of energy efficiency and he called for tighter regulation of that sector.<sup>39</sup>

166. Norman Kerr questioned the potential uptake of the Green Deal<sup>40</sup>, when it is implemented by the UK Government, by householders to upgrade the energy efficiency of their homes. He said—

“I struggle to see how we will encourage people to fund insulation measures through a soft loan when we cannot even encourage them to take insulation for free”.<sup>41</sup>

167. In its written submission to the Committee, Energy Action Scotland pointed out that “spending on home insulation prevents people from having to live in cold, damp

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<sup>33</sup> WWF Scotland, *written submission to the Committee*, October 2011, page 1.

<sup>34</sup> Stop Climate Change Chaos Scotland, *written submission to the Committee*, October 2011, page 1.

<sup>35</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 426.

<sup>36</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 427.

<sup>37</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 434.

<sup>38</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 430.

<sup>39</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 428.

<sup>40</sup> The Green Deal is a UK Government initiative which will provide a framework to enable private firms to offer consumers energy efficiency improvements to their homes, community spaces and businesses at no upfront cost, and to recoup payments through a charge in instalments on the energy bill.

<sup>41</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Cols 428-9.

homes, thus incurring numerous health and social problems.” It cites research by Professor Christine Liddell,<sup>42</sup> which showed that for every £1 spent on tackling fuel poverty, 42p is saved by the NHS. The research also found that tackling fuel poverty will improve local economic activity, particularly in deprived areas, where money not spent on fuel bills will find its way into the local economy.

168. Norman Kerr observed that the Draft Budget did not deploy “such cross-cutting thinking”. He added—

“we need to look at how we can bring in the health sector on more preventative spend. We believe that, in many cases, energy efficiency is preventative medicine”.<sup>43</sup>

169. WWF Scotland also talks of the “multiple economic, social and environmental benefits” of spending in this area in its written submission.<sup>44</sup>

170. The Cabinet Secretary for Finance, Employment and Sustainable Growth reaffirmed the Scottish Government’s commitment to the 2016 target and pointed out that energy companies also had a responsibility to their customers.<sup>45</sup>

171. The Cabinet Secretary for Infrastructure and Capital Investment informed the Committee that the allocation for fuel poverty would be supplemented by the budget for the Warm Homes fund, and that all of this budget would be directed at the fuel poor.<sup>46</sup> £30m has been allocated for the entire Spending Review period and £3.25 million is allocated to this fund in 2012-13. It will be used to—

“support addressing fuel poverty in the most vulnerable communities. The Fund will support take up of renewable energy and energy efficiency measures to reduce energy costs and provide the opportunity to generate energy and income to support local community projects. It will be designed to help maximise leverage of all funding sources to support energy efficiency and renewables”.<sup>47</sup>

172. The Cabinet Secretary for Infrastructure and Capital Investment argued that, taken together with CERT funds, the three measures in the Draft Budget were “not that far short of £170 million” estimated by Energy Action Scotland back in 2006 (though subsequently revised to £200 million) per annum as being necessary to eradicate fuel poverty in Scotland.<sup>48</sup>

173. He did acknowledge that it was difficult to reliably determine what CERT funds were being spent in Scotland and in which areas. He outlined discussions he had had with the UK Secretary of State for Energy and Climate Change to try to ensure that the

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<sup>42</sup> Save the Children, [Policy Briefing, The impact of Fuel Poverty on Children](#)  
Professor Christine Liddell, December 2008.

<sup>43</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 435.

<sup>44</sup> WWF Scotland, *written submission to the Committee*, October 2011, page 1.

<sup>45</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 493.

<sup>46</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 511.

<sup>47</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 202.

<sup>48</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 503.

replacement for the CERT scheme (ECO (energy company obligation)), would enforce the disclosure of this type of information by energy companies.<sup>49</sup>

174. The Cabinet Secretary for Infrastructure and Capital Investment accepted that spending on fuel poverty had been reduced, due to budgetary pressures but said that “the reduction in the budget is driven by a combination of the cuts in capital spending and the emphasis on putting money into the programmes that work”.<sup>50</sup>

175. He emphasised the importance of bringing Scotland’s housing stock up to standard and cited the [Cambridge University study](#) which included an estimate of the total investment required to achieve this “scale of the challenge”<sup>51</sup>

**176. The Committee regrets the complexity inherent in having a number of different budget lines in different ministerial portfolios and also across two different governments and also the mix of public and private sector funds. All of these reportedly contribute to tackling fuel poverty. Therefore, it is necessary to analyse those budget lines to determine what proportion will be directed at fuel poverty and the overall impact on energy consumption and CO2 emissions. Given the importance of this issue, it would be helpful if future budgets had global figures for fuel poverty and energy efficiency as a feature, with clear information on the scale and source of the funds.**

**177. Expenditure in this area has the potential not only to release thousands of Scottish citizens from the misery of fuel poverty and cold, damp housing but also to remove a burden from the NHS, to create employment, develop a skilled workforce, and to release cash into the economy that would otherwise be spent on energy bills. Expenditure on fuel poverty is clearly in the category of preventive spend that the Finance Committee has asked us to look at.**

**178. The Committee notes that the figure of £65 million for tackling fuel poverty allocated in the 2012-13 Draft Budget, even if combined with the Warm Homes Fund and a portion of the domestic energy efficiency spending allocation still falls some way short of half of what Energy Action Scotland estimate is the financial requirement to eradicate fuel poverty, i.e. at least £200 million per annum.<sup>52</sup> The Committee further notes the findings of its predecessor committee in previous draft budget reports, where it recommended “investment could be in the order of £100-170 million per year” for this objective. The Committee also calls on the UK Government to ensure that increased incentives exist for households and businesses to invest in energy efficiency and demand reduction measures.**

**179. The Committee recognises that spiralling energy costs and cuts to welfare spending<sup>53</sup> will have a detrimental impact on fuel poverty in Scotland. Taking all of this into consideration, the Committee recommends that the Scottish Government reconsiders its contribution to combating fuel poverty with the aim of reaching, along with energy companies through the CERT and**

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<sup>49</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 503

<sup>50</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 504.

<sup>51</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 518-519.

<sup>52</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 425.

<sup>53</sup> Gavin Brown recorded his dissent to the reference in this sentence to welfare spending.

**ECO schemes, a combined budget of at least £200 million per annum for fuel poverty measures - the level recommended by Energy Action Scotland as necessary to meet the 2016 fuel poverty target in Scotland. Further, the Committee calls on the Scottish Government to maintain pressure on the UK Government to act on rising energy costs.**

### **Education and skills**

180. Funding for higher and further education (HE and FE) is a complex picture. Because of the Scottish Government's decision to maintain free tuition for undergraduates, the Draft Budget makes a provision to offset the consequential which arise through the reduction of the HE budget in England. However, the FE budget is being reduced (by 11% in real terms). Large reductions to the capital budget for both sectors mean that, overall, the budget for FE and HE is reduced by 2.1% in real terms – a reduction greater than the overall DEL reduction of 1.6%

181. Professor John McLaren emphasised the need for the budget to prepare Scotland for growth when it comes. He said—

“that comes back to skills, which relates to schools as well as further and higher education” and added “pushing people in the direction of where the jobs will be would be a good idea”.<sup>54</sup>

182. UNISON, FSB, Scottish Chambers of Commerce and the Scottish Council for Development and Industry, in written submissions, regretted the reduction of funding for FE.<sup>55</sup> As set out earlier in this report, there is broad support for the Scottish Government's commitment to apprenticeships, some of which rely on FE institutions.

183. The Committee heard evidence during its budget scrutiny about the importance of skills to meet the renewables opportunity and the fact Scotland has won research and development facilities on its strength in academia.

**184. The Committee welcomes the support for the HE sector but notes the cuts to the FE sector. Given the importance of ensuring skills are in place to fill the jobs that will come with the recovery, the Committee welcomes the investment made by the Scottish Government in Modern Apprenticeships and the opportunities for All scheme for 16 to 19-year-olds.**<sup>56</sup>

### **The third and voluntary sector and social enterprises**

185. Funding for the third and voluntary sectors has been reduced in the 2012-13 Draft Budget, compared with 2011-12. Details provided to the Committee on this budget line were scant: £25.5 million for the sector as a whole, of which £1 million is for a Reducing Re-offending Change Fund. The allocation in this line represents a cash reduction of £2.5 million compared with 2011-12, primarily due to the ending of the Scottish Investment fund, which accounted for £3 million.

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<sup>54</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 331.

<sup>55</sup> UNISON, *written submission to the Committee*, October 2011, page 3.

<sup>56</sup> This paragraph was agreed to by division: For 5: (Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan). Against 4 (Gavin Brown, Patrick Harvie, Rhoda Grant, Anne McTaggart).

186. A letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth stated that the Scottish Government had “yet to make decisions relating to the distribution and allocation of the third sector budget. It is therefore not possible for [it] to provide a breakdown at this stage”.<sup>57</sup> In oral evidence to the Committee, he recognised the significant role played by the third sector in areas of deprivation.<sup>58</sup>

187. Witnesses giving oral evidence had a “general idea”<sup>59</sup> of how the budget would be spent. While Duncan Thorp of the Scottish Social Enterprise Coalition (SSEC) described the reduction as “clearly significant”, he said that SSEC members had anticipated reductions and put measures in place some time ago to attract funds from alternative sources.<sup>60</sup> He said that, in the current context, “we have a pretty good deal...and it demonstrates the Scottish Government’s sincere commitment to the sector”.<sup>61</sup>

188. Witnesses believed that public sector procurement policy had the potential to support third sector organisations – and produce a resultant community benefit - but they were too often geared to lowest cost. John Downie of SCVO argued that “the third sector is not always the cheapest option. It is the most cost effective and, most of the time, it is the best option for getting the best outcome”.<sup>62</sup>

189. The Committee also heard a call for community benefit clauses in contracts for public procurement and a loan guarantee scheme which would allow private sector investors in social enterprises to receive a guarantee from the Scottish Government.<sup>63</sup>

**190. The Committee is disappointed that the Cabinet Secretary for Finance, Employment and Sustainable Growth was unable to provide a breakdown of expenditure planned in this area and therefore calls on the Scottish Government to make these figures available as soon as possible.**

**191. The Committee notes the valuable contribution that third and voluntary sector organisations, social enterprises and cooperatives and credit unions make to Scottish society and notes particularly that investment in such organisations can represent preventative spend by improving people’s lives and reducing their dependence on the NHS and social services. The Committee anticipates that their role will become all the more important in the difficult economic times ahead.**

**192. Given the adverse credit conditions faced by many fledgling businesses at this time, the Committee strongly endorses support for credit unions.**

**193. The Committee regrets the decline in funding for the third sector, though it recognises the serious budgetary constraints in which the Scottish Government is operating. It welcomes the willingness of these organisations to**

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<sup>57</sup> Cabinet Secretary for Finance, Employment and Sustainable Growth, *letter to the committee*, 31 October 2011.

<sup>58</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 498.

<sup>59</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 444.

<sup>60</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 443.

<sup>61</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 437.

<sup>62</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 450.

<sup>63</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 448.

**operate as normal, commercial businesses and welcomes the tailored support offered through this Draft Budget to support them in achieving this self-sufficiency.**

### **Preventative spend**

194. The Scottish Government has announced that—

“this spending review marks a decisive shift towards preventative spending. Focusing on preventing problems by intervening earlier is not only the right approach to many of the social and other issues facing us in Scotland today; it also secures better value for the taxpayer. We are doing this to build a nation fit for the future”.<sup>64</sup>

195. It added—

“a Reducing Reoffending Change Fund, focusing on preventative spend, will be created to bolster those interventions that we know can reduce reoffending. This work will take account of the particular contribution that can be made by third sector service providers”.<sup>65</sup>

196. Professor John McLaren described the inclusion of preventative spending measures in the budget as “a brave decision” and added that “increasingly, we will have to go for preventative spending because it will make an ageing economy more manageable if we do the right things in early years care and elderly care”.<sup>66</sup>

### *The third sector*

197. The Committee’s evidence from the third sector revealed a range of ways in which preventative spend has been demonstrated to have worked in that sector. SCVO welcomed the Scottish Government’s “statement of intent” on preventative spending in its oral evidence.<sup>67</sup> Its written submission added—

“the Change Funds are a key means by which to take forward the preventative agenda, change the culture in public service provision and enable the third sector to play its part”.<sup>68</sup>

198. Duncan Thorp of SSEC strongly welcomed “the clear commitment to the new preventative spending approach” but sought reassurances from the Scottish Government that “the allocated money will be spent on prevention on the ground and will not be used to top up current service delivery”. He added that “a challenge for our sector and the Scottish Government is to recognise, replicate, roll out and upscale good projects as part of the preventative approach”.<sup>69</sup>

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<sup>64</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page vii

<sup>65</sup> Scottish Government, [Scottish Spending Review 2011 and Draft Budget 2012-13](#), September 2011, page 38.

<sup>66</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 336.

<sup>67</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 439.

<sup>68</sup> SCVO, *written submission*, October 2011, page 1.

<sup>69</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 437.

199. He also commended the use of the social return on investment system and social accounting and highlighted an example – the Wise Group’s routes out of prison programme – of a programme that had the potential to make “massive” savings for the public purse.<sup>70</sup> He added—

“if we rolled out across the country a successful project such as routes out of prison, the cumulative impacts would be huge. The key is to measure and to find out which projects work”.<sup>71</sup>

200. George Thomson, Chief Executive of Volunteer Development Scotland, cited work by the Scottish Government’s Chief Medical Officer, which had identified a range of positive outcomes of volunteering.<sup>72</sup> For example, support for volunteering has been shown to produce health benefits among volunteers and “time-banking” of volunteer hours for prison inmates is thought to have the potential to contribute towards a reduction in reoffending.<sup>73</sup>

*Preventative spend on fuel poverty*

201. The evidence received by the Committee highlighted above makes a very powerful case that spending on fuel poverty can be defined as preventative spend, given its potential to remove a burden from the NHS and also to provide a boost to the economy through the creation of jobs in retro-fitting houses with energy efficiency measures, and through the release of money otherwise spent on fuel into the general economy. Spend on fuel poverty will also address climate change which Stop Climate Change Chaos Scotland argue “is one of the most important pieces of preventative spending that Scotland, and the rest of the world, must make in order to avoid disastrous social and economic impact.”<sup>74</sup>

202. The Cabinet Secretary for Infrastructure and Capital Investment agreed with the general point that expenditure on fuel poverty represents preventative spend. He said—

“we absolutely accept that investment in fuel poverty measures of the kind that we are taking is essential if we are to improve the nation’s health, employment levels, environment and educational attainment”.<sup>75</sup>

**203. The Committee welcomes the Scottish Government’s commitment to preventative spend, given its importance to the future of the country.**

**204. The Committee believes that the Scottish Government should increase spending on fuel poverty as a prime example of preventative spend. The Committee believes that some of this money may be recouped over other budgets in a relatively short space of time as well as creating jobs and boosting the economy. The Committee will continue to monitor whether the full £500 million committed by the Scottish Government is indeed used on preventative spend.**

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<sup>70</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 452.

<sup>71</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 452.

<sup>72</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 442.

<sup>73</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 451.

<sup>74</sup> Stop Climate Change Chaos *written submission to the Committee*, October 2011, page 2.

<sup>75</sup> Economy, Energy and Tourism Committee, *Official Report*, 2 November 2011, Col 508.

## Equalities

205. Equalities issues have been integral to the Committee’s budget scrutiny this year. From the outset, the Committee decided to take oral evidence from STUC and the Poverty Alliance to gain a broader understanding of the impact of the budget on social inequality.

206. Some measures explored by the Committee have had a particular resonance for some of the groups under the definition of equal opportunities contained in the Scotland Act 1998. Fuel poverty is an issue that disproportionately affects senior citizens, those with disabilities and those with lower socio-economic status.

## Efficiency savings

207. As discussed earlier in this report, the Scottish Government does not place as great an emphasis on finding efficiency savings as it has done in previous draft budgets. Evidence heard by the Committee touched on the veracity of efficiency savings claimed in previous years. Professor John McLaren pointed out that figures produced by the Office of National Statistics had not shown an increase in productivity, and therefore a reduction in resources must, logically, equate to a reduction in service. He did attach a number of caveats to the statistics however, as they appeared to throw up a number of anomalies.<sup>76</sup>

### *Strategic Forum*

208. As set out earlier in this paper, the draft budget includes a requirement for the partners of the Strategic Forum to find savings of £20m/£25m/£40m (in cash terms) over the years 2012-13 to 2014-15.

209. During oral evidence, SE, HIE and VisitScotland were unable to provide any detail on where the savings would be found, as the announcement had been made so recently. Lena Wilson of SE assured the Committee—

“we have six or seven work streams on, for example, how we share premises and back-office functions. Each chief executive is sponsoring a particular work stream, and between now and the end of December we will work through all of them so that we can present exactly how the efficiencies will be achieved”.<sup>77</sup>

210. In follow up evidence, the Committee were provided with a paper outlining the Strategic Forum’s approach to the efficiency programme which states—

“it is anticipated that the greatest opportunity to achieve these efficiencies across the wider public sector will be found through better utilisation of premises, more effective and efficient use of marketing budgets and savings from wider IT shared services”.<sup>78</sup>

211. The paper sets out the approach within the newly established Strategic Forum Partners Efficiency Programme, which was established by the CEOs of the five

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<sup>76</sup> Economy, Energy and Tourism Committee, *Official Report*, 5 October 2011, Col 343.

<sup>77</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 411.

<sup>78</sup> Strategic Partners Efficiency Programme, *written submission to the Committee*, November 2011, page 1.

organisations involved (Highland and Islands Enterprise; Skills Development Scotland; Scottish Enterprise; Scottish Funding Council and VisitScotland).<sup>79</sup>

**212. The Committee welcomes the rapid establishment of the Strategic Forum Partners Efficiency Programme and looks forward to receiving updates on progress with achieving the efficiency savings. Given the prominence this issue has in the Draft Budget, it is important that further detail is provided to the Committee by the end of December 2011, the time period which was indicated to us for the preparatory work on how these savings will be achieved.**

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<sup>79</sup> Strategic Partners Efficiency Programme, written submission to the Committee, November 2011, page 1-2.

## SUMMARY

### Introduction

213. During our consideration of the Draft Budget for 2012-13 and the 2011 Spending Review, the Committee was acutely aware of the challenging economic climate. Most reasonable observers would accept that the Scottish Government alone cannot solve all of the issues we face and there is a recognition that, as a result of the wider budget reductions at the UK level, the Scottish Government was left with far less room for manoeuvre than ever before.

214. It is, however, for this very reason that the detail of the Scottish Government's Draft Budget should be scrutinised with the utmost care to evaluate its priorities and to gather evidence on which to assess its expenditure decisions. Social and environmental benefits should also be weighed up when making spending decisions, and these arguably become more important during periods of scarce resources. Where two interventions have the same economic impact, the one with the greatest social or environmental benefit should in our view, win out.

215. The Committee feels strongly that, now more than ever, it is important that investment decisions will improve the prospects of the economy over the longer term. Similarly, public sector procurement policy must operate in a way which enables smaller, local firms to participate and win business so that government resources are recycled within our communities.

#### *Quality of the information provided to the Committee*

216. **While the Committee accepts that some decisions are still to be taken at this stage in the budget cycle, it regrets that lack of detail provided by the Scottish Government and its agencies regarding specific capital projects which will be undertaken as a result of the Scottish Government's decision to transfer revenue budget to capital. This is symptomatic of a general decline in the level and detail of information that has been provided to us this year compared to previous years.**

217. **The timing of the release of Level 4 data also served to seriously hamper effective budget scrutiny by the Committee, being released after the first budget scrutiny evidence session held by the Committee. This increasing lack of detail since 1999, covering administrations of different political hues, is a matter of regret and does not aid the Parliament and its committees to carry out their legitimate scrutiny function. It is disappointing that no level four figures were provided for the third sector budget. We again bring this matter to the attention of the Finance Committee.**

218. **The Committee notes that, taken together, the 2012/13 budget and the spending review of which it forms a part will cover most of the period to the 2017 target dates in the National Performance Framework (NPF), most of which relate to the development of Scotland's economy. The Committee expresses concern at the lack of progress in relation to the principal Solidarity target, and notes that evidence received from the STUC and the Poverty Alliance suggests that the budget may not contribute to meeting this target. The Committee**

believes that the positive attempt to align Scottish economic policy with a broad set of objectives as set out in the NPF is in danger of being lost in favour of a narrow focus on GDP only. The Committee recommends that the Scottish Government conduct a wider review of the NPF in light of economic, social and environmental developments, and reports back to Parliament on an annual basis regarding progress towards the goals set out in the NPF.

#### **Conclusions and recommendations**

219. The Committee would like to thank all of those who gave evidence to the Committee. The Committee would also like to thank Mr Peter Wood, the Committee's budget adviser, for his invaluable support and expert advice throughout the budget scrutiny process.

220. We urge the Scottish Government to come forward at the earliest opportunity with the detail of how its proposed Enterprise Areas will work.

221. The majority of respondents on this point regarded the Small Business Bonus Scheme as a positive measure for small businesses. However the Committee notes that no assessment has been made of the overall economic impact of the scheme compared with other measures which could be implemented at the same cost. The majority of the Committee therefore welcomes the continuation of the Small Business Bonus Scheme during this Spending Review period but recommends that the Scottish Government undertake an evaluation of its overall economic benefit in order to shape future thinking and decision-making.

222. The Committee notes that the Cabinet Secretary for Finance, Employment and Sustainable Growth undertook to listen to representations on the empty property relief reforms proposed in the Draft Budget. The Committee, however, believes that it would be helpful to have additional detail on how the scheme would operate, and what its impact would be, so that the representations made to the Cabinet Secretary can be fully addressed.<sup>80</sup>

223. The majority of the Committee recognises the challenges facing public sector budgets within the current UK Government Spending Review arrangements and accepts the Scottish Government's decision to freeze public sector pay in 2012-13. However, beyond this date, the Committee would like to see further discussions and consultations in order to take the staff and unions with them if the Scottish Government chooses to extend a pay freeze beyond this period.<sup>81</sup>

224. However, a minority of the Committee recognises the challenges facing public sector budgets within the current UK Government settlement arrangements and notes with regret the Scottish Government's decision to

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<sup>80</sup> An amendment to this paragraph was proposed. The proposal was disagreed to by division: For 3 (Gavin Brown, Rhoda Grant, Anne McTaggart), Against 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

<sup>81</sup> This paragraph was agreed to by a majority of the Committee. For: 6 (Gavin Brown, Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson), Against 3 (Rhoda Grant, Patrick Harvie Anne McTaggart).

continue to freeze public sector pay in 2012-13. The minority of the Committee recommends that the Scottish Government place a high priority on ending the pay freeze at the earliest possible time. The minority of the Committee calls on the Scottish Government to hold further discussions with staff and unions to apprise them of the timescale for the ending of the pay freeze.<sup>82</sup>

225. The Committee recommends that, for as long as the pay freeze is in place, the threshold for protection from this measure – an income of £21k or below – should be reviewed on an annual basis. The Committee further recommends that the Scottish Government acts to address the bonus culture which still exists within some parts of the senior civil service and in some Government agencies.

226. The Committee welcomes the concept of the social wage. However, the Committee looks forward to more detail on the concept and greater clarity on how the measure will support solidarity and cohesion, and reduce inequality particularly during times of economic hardship.

227. The Committee recognises that a balance must be struck between restoring confidence through clear and detailed capital expenditure plans and retaining some flexibility to stimulate economic recovery. However, it regards the detail set out in the budget regarding the transfer between resource and capital as insufficient at this stage to make any assessment on the merits of what is planned. The Committee would have welcomed greater clarity in this year's Budget announcement to allow for more effective scrutiny of what has been presented as a major plank of the Scottish Government's plans for the Spending Review period. Furthermore, there is a lack of clarity as to how firm the plans to transfer resource to capital are at this stage. The Cabinet Secretary for Finance, Employment and Sustainable Growth emphasised that any resource to capital decisions would be taken on an annual basis. This leaves it unclear whether the £750m resource to capital transfer represents a firm commitment at this stage, or a policy aspiration.

228. It is also unclear to what extent this shift of resources represents any change on established policy. As discussed in a later section of this report, the Enterprise Agencies have for many years funded a large part of their capital spend from their revenue budgets

229. The Committee notes the concern of the Poverty Alliance that the economic benefits of some forms of capital investment are not enjoyed by the majority of people, and may come at a cost borne disproportionately by the poorest.<sup>83</sup>

230. The Committee recommends that the Scottish Government make a detailed analysis of the capital projects which could, potentially, be funded by a

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<sup>82</sup> This paragraph was agreed to by a minority of the Committee. For: 3 (Rhoda Grant, Patrick Harvie, Anne McTaggart). Against 6: (Gavin Brown, Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

<sup>83</sup> This paragraph was agreed to by division. For: 5 (Gavin Brown, Patrick Harvie, Rhoda Grant, Anne McTaggart and John Wilson), against: 4 (Chic Brodie, Mike, Angus MacDonald, Mackenzie, Stuart McMillan).

transfer from resource spending and the costs and benefits – including the social and environmental benefits – of each project. The analysis should be capable of ranking the return for investment – both economically and socially – on each project and should be available for scrutiny by the Parliament before this year's budget round is complete. Despite the Committee's request, the Committee notes that the Cabinet Secretary for Infrastructure and Capital Investment did not provide a confirmation on whether or not the use of savings from the Forth Road for the Warm Homes and Future Transfer Fund represents a transfer of revenue to capital budget.

231. The Committee would wish to see on a regular basis a written report showing the planned transfer of revenue to capital so that the Committee might make assessment of the impact of what is planned.

232. The committee welcomes the Government's decision to ensure that the NDR poundage does not rise above that in England.<sup>84</sup> However, it is concerned that deterioration in the economic situation may mean that projected increases in NDR income will not be realised leading to increased requirements for other forms of revenue raising, or for the Scottish Government to increase support to Local Authorities.

233. The Committee welcomes the introduction of the public health levy on large retailers, believes that any measure to reduce the consumption of cigarettes and alcohol is to be welcomed and concludes that the impact on investment decisions and on employment levels appears likely to be minimal.<sup>85</sup>

234. The Committee calls on the Scottish Government to monitor the impact of the levy on sales of the targeted products, and to report back to Parliament within 18 months on the effectiveness of the measures in terms of (a) public health (b) revenue generation and (c) employment in the retail sector.<sup>86</sup>

235. The Committee notes the Cabinet Secretary for Finance, Employment and Sustainable Growth's assurances regarding the impact of the public health levy for large retailers on employment levels and profitability.

236. The Committee accepts that a business and regulatory impact assessment of the measure is not necessary on this occasion as the anticipated impact on businesses will be minimal.<sup>87</sup>

237. The Committee can see merit in empowering local authorities to take a degree of control of some aspects of business rates and welcomes the discussions taking place between the Scottish Government and COSLA on the introduction of a Business Rates Incentivisation Scheme (BRIS).

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<sup>84</sup> Patrick Harvie recorded his dissent to this sentence.

<sup>85</sup> This paragraph was agreed to by division. For: 6 (Patrick Harvie, Chic Brodie, Angus MacDonald, Mike Mackenzie, Stuart McMillan, John Wilson), Against: 3 (Rhoda Grant, Anne McTaggart, Gavin Brown).

<sup>86</sup> Chic Brodie recorded his dissent to this paragraph.

<sup>87</sup> This paragraph was agreed to by division: for 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike Mackenzie, Stuart McMillan and John Wilson) Against 3 (Gavin Brown, Rhoda Grant, Anne McTaggart).

238. **The Committee welcomes the Scottish Government’s commitment to maintain capital spending as far as possible, in the context of a 36.7% cut to the Scottish Government’s capital budget over the spending review period.<sup>88</sup>**

239. **The evidence we have taken and the follow-up data provided to us from the enterprise agencies reveals that the practice of transferring revenue budget into capital is a matter of routine and has been carried out in recent years without special mention.**

240. **While the Committee accepts that the transfer of resource budget to capital is just one of a range of measures designed to boost capital spending in Scotland, the evidence would suggest that capital expenditure over the Spending Review period will be approached in the same way as in previous years.**

241. **The Committee notes the written and oral evidence on the methodologies used by the enterprise agencies to evaluate impact and inform future investment decisions.**

242. **While the Committee notes the differences in the remits of the enterprise agencies, it would like to see greater consistency in the way this work is approached.**

243. **The Committee is disappointed at the level of detail provided by Scottish Enterprise, Scottish Development International and Highlands and Islands Enterprise in their responses to the Committee’s call for evidence. This seems to be a retrograde step compared to the progress made in previous years.**

244. **While we appreciate that timescales are tight, we recommend that the agencies provide more detail on specific spending programmes and priorities for investment and set out the anticipated balance between revenue and capital expenditure.**

245. **The Committee notes the Cabinet Secretary for Finance, Employment and Sustainable Growth’s continued commitment to the 2005 target contained in Scottish Tourism: The Next Decade, to increase tourism revenue by 50% by 2015.**

246. **Nevertheless, the Committee seeks clarification on the status of the target, what interim targets are in place and what strategy will be implemented given the clear indication given by VisitScotland’s Chief Executive that the target is unachievable and that it would be naïve to think otherwise.**

247. **The Committee welcomes the commitment to renewable energy that the Scottish Government is demonstrating through the draft budget. The Committee notes, however, the challenging targets that it has set both for renewable energy generation and the reduction of carbon emissions. The Committee gives notice**

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<sup>88</sup> This paragraph was agreed to by division: for 5 (Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson) Against 4 (Gavin Brown, Rhoda Grant, Patrick Harvie, Anne McTaggart).

that it will examine the Scottish Government's target for renewable energy generation in greater detail in the session ahead.

248. The Committee would encourage the use of prudential borrowing by local authorities in order to fund investment in their estates to adopt small-scale generation. This would have the benefit of providing income and stimulating demand for such technologies, with a view to producing economies of scale.

249. The Committee regrets the complexity inherent in having a number of different budget lines in different ministerial portfolios and also across two different governments and also the mix of public and private sector funds. All of these reportedly contribute to tackling fuel poverty. Therefore, it is necessary to analyse those budget lines to determine what proportion will be directed at fuel poverty and the overall impact on energy consumption and CO2 emissions. Given the importance of this issue, it would be helpful if future budgets had global figures for fuel poverty and energy efficiency as a feature, with clear information on the scale and source of the funds.

250. Expenditure in this area has the potential not only to release thousands of Scottish citizens from the misery of fuel poverty and cold, damp housing but also to remove a burden from the NHS, to create employment, develop a skilled workforce, and to release cash into the economy that would otherwise be spent on energy bills. Expenditure on fuel poverty is clearly in the category of preventive spend that the Finance Committee has asked us to look at.

251. The Committee notes that the figure of £65 million for tackling fuel poverty allocated in the 2012-13 Draft Budget, even if combined with the Warm Homes Fund and a portion of the domestic energy efficiency spending allocation still falls some way short of half of what Energy Action Scotland estimate is the financial requirement to eradicate fuel poverty, i.e. at least £200 million per annum.<sup>89</sup> The Committee further notes the findings of its predecessor committee in previous draft budget reports, where it recommended "investment could be in the order of £100-170 million per year" for this objective. The Committee also calls on the UK Government to ensure that increased incentives exist for households and businesses to invest in energy efficiency and demand reduction measures.

252. The Committee recognises that spiralling energy costs and cuts to welfare spending<sup>90</sup> will have a detrimental impact on fuel poverty in Scotland. Taking all of this into consideration, the Committee recommends that the Scottish Government reconsiders its contribution to combating fuel poverty with the aim of reaching, along with energy companies through the CERT and ECO schemes, a combined budget of at least £200 million per annum for fuel poverty measures - the level recommended by Energy Action Scotland as necessary to meet the 2016 fuel poverty target in Scotland. Further, the Committee calls on the Scottish Government to maintain pressure on the UK Government to act on rising energy costs.

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<sup>89</sup> Economy, Energy and Tourism Committee, *Official Report*, 26 October 2011, Col 425.

<sup>90</sup> Gavin Brown recorded his dissent to the reference in this sentence to welfare spending.

253. The Committee welcomes the support for the HE sector but notes the cuts to the FE sector. Given the importance of ensuring skills are in place to fill the jobs that will come with the recovery, the Committee welcomes the investment made by the Scottish Government in Modern Apprenticeships and the opportunities for All scheme for 16 to 19-year-olds.<sup>91</sup>

254. The Committee is disappointed that the Cabinet Secretary for Finance, Employment and Sustainable Growth was unable to provide a breakdown of expenditure planned in this area and therefore calls on the Scottish Government to make these figures available as soon as possible.

255. The Committee notes the valuable contribution that third and voluntary sector organisations, social enterprises and cooperatives and credit unions make to Scottish society and notes particularly that investment in such organisations can represent preventative spend by improving people's lives and reducing their dependence on the NHS and social services. The Committee anticipates that their role will become all the more important in the difficult economic times ahead.

256. Given the adverse credit conditions faced by many fledgling businesses at this time, the Committee strongly endorses support for credit unions.

257. The Committee regrets the decline in funding for the third sector, though it recognises the serious budgetary constraints in which the Scottish Government is operating. It welcomes the willingness of these organisations to operate as normal, commercial businesses and welcomes the tailored support offered through this Draft Budget to support them in achieving this self-sufficiency.

258. The Committee welcomes the Scottish Government's commitment to preventative spend, given its importance to the future of the country.

259. The Committee believes that the Scottish Government should increase spending on fuel poverty as a prime example of preventative spend. The Committee believes that some of this money may be recouped over other budgets in a relatively short space of time as well as creating jobs and boosting the economy. The Committee will continue to monitor whether the full £500 million committed by the Scottish Government is indeed used on preventative spend.

260. The Committee welcomes the rapid establishment of the Strategic Forum Partners Efficiency Programme and looks forward to receiving updates on progress with achieving the efficiency savings. Given the prominence this issue has in the Draft Budget, it is important that further detail is provided to the Committee by the end of December 2011, the time period which was indicated to us for the preparatory work on how these savings will be achieved.

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<sup>91</sup> This paragraph was agreed to by division: For 5: (Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan). Against 4 (Gavin Brown, Patrick Harvie, Rhoda Grant, Anne McTaggart).

## **EXTRACTS FROM THE MINUTES OF THE ECONOMY, ENERGY AND TOURISM COMMITTEE**

### **7th Meeting, 2011 (Session 4), Wednesday 28 September 2011**

**Draft Budget Scrutiny 2012-13 (in private):** The Committee discussed the implications of the draft 2012-13 budget with its adviser and considered its approach to scrutiny.

### **8th Meeting, 2011 (Session 4), Wednesday 5 October 2011**

**Draft Budget Scrutiny 2012-13:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 from—

Bill Jamieson, Executive Editor, Scotsman Publications Ltd.;  
Professor John McLaren, Centre for Public Policy and Regions;  
Colin Borland, Head of External Affairs, Federation of Small Businesses;  
David Lonsdale, Assistant Director, CBI;  
Ian Shearer, Interim Director, Scottish Retail Consortium.

### **9th Meeting, 2011 (Session 4), Wednesday 26 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Lena Wilson, Chief Executive, and Iain Scott, Chief Financial Officer, Scottish Enterprise;  
Alex Paterson, Chief Executive, and Forbes Duthie, Director of Finance and Corporate Services, Highlands and Islands Enterprise;  
Malcolm Roughead, Chief Executive, VisitScotland;  
Anne MacColl, Chief Executive, Scottish Development International;  
Niall Stuart, Chief Executive, Scottish Renewables;  
Norman Kerr, Director, Energy Action Scotland;  
Andrew Faulke, Policy Manager, Consumer Focus Scotland;  
John Downie, Director of Public Affairs, Scottish Council for Voluntary Organisations;  
Duncan Thorp, Parliamentary, Policy and Communications Officer, Scottish Social Enterprises Coalition;  
George Thomson, Chief Executive, Volunteer Development Scotland.

### **10th Meeting, 2011 (Session 4), Wednesday 2 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Stephen Boyd, Assistant Secretary, STUC;  
Jim Boyle, Convener, Poverty Alliance;  
John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, Scottish Government;  
Alex Neil, Cabinet Secretary for Infrastructure and Capital Investment, Scottish Government.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered the contents of its draft report, to be agreed at a future meeting.

**11th Meeting, 2011 (Session 4), Wednesday 9 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.

**12th Meeting, 2011 (Session 4), Wednesday 16 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered its draft report. Various changes were agreed to, some by division. John Wilson proposed that the Committee record its appreciation of Gavin Brown's work with the Committee.

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Note of divisions in private:

Rhoda Grant proposed the following paragraph in place of paragraph 43. The proposal was disagreed to by division: For 3 (Gavin Brown, Rhoda Grant, Anne McTaggart), against 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

**The Committee notes the Cabinet Secretary for Finance, Employment and Sustainable Growth's commitment to consider the arguments for a BRIA for the empty property relief reforms proposed in the Draft Budget. The Committee believes that additional detail on how the relief scheme would operate and what the impact might be would go some way towards offsetting the concerns from business groups such as the Chambers of Commerce and SCDI. Therefore the Committee urges the Cabinet Secretary to carry out a BRIA.**

Gavin Brown proposed the following paragraph in place of paragraph 90. The proposal was disagreed to by division: For 1 (Gavin Brown), Against 8 (Chic Brodie, Rhoda Grant, Patrick, Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan, Anne McTaggart and John Wilson).

**The Committee does not support the public health levy on large retailers and is concerned about both its potential to discourage investment of this kind in Scotland and any impact on existing jobs.**

Rhoda Grant proposed the following paragraph in place of paragraph 90. The proposal was disagreed to by division: For 2 (Rhoda Grant and Anne McTaggart) Against 7 (Chic Brodie, Gavin Brown, Patrick, Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

**The Committee does not have the information it requires to reach a decision on the retail levy. While supporting measures that reduce consumption of cigarettes and alcohol, it is not clear if this will be achieved**

**through this measure and questions why the Social Responsibility Levy is not being implemented instead.**

The following paragraphs, as an alternative to paragraph 95 were disagreed to by division For: 3 (Gavin Brown, Rhoda Grant, Anne McTaggart) Against: 6 (Chic Brodie, Patrick Harvie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson)

**However, the Committee has received evidence from business organisations and representative bodies who say that the health levy on large retailers of tobacco and alcohol could have an impact on jobs and new investment and believes that the Scottish Government should perform an assessment of its impact.**

**For this reason, we welcome the Cabinet Secretary for Finance, Employment and Sustainable Growth's undertaking to give consideration to carrying out a business and regulatory impact assessment of the measure. We would urge him to make public any impact assessment and to ensure that it is completed swiftly.**

The following alternative to paragraph 116 was disagreed to by division For: 4 (Gavin Brown, Patrick Harvie, Rhoda Grant and Anne McTaggart) Against: 5 (Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson)

**Although efforts to maintain capital spending through the current economic downturn are welcomed, there is no evidence to suggest that, for the Enterprise Agencies, the current policy measures will succeed in raising capital expenditure above the pre-Spending Review levels**

The following additional paragraph after paragraph 127 was proposed by Patrick Harvie and disagreed to by division: For 3 (Patrick Harvie, Rhoda Grant, Anne McTaggart), Against 6 (Gavin Brown, Chic Brodie, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson)

**The Committee recommends that the Scottish Government review the conditions attached to RSA grants to ensure that recipients are complying with a high standard of employment practice, ethical business practices, tax and regulatory compliance etc. The aim of the review should be to ensure that public funds are used to create meaningful and lasting public benefit, and not to inflate corporate profits.**

The following alternative to paragraph 184 to was disagreed to by division: For 1 (Gavin Brown). Against 8 (Chic Brodie, Patrick Harvie, Rhoda Grant, Angus MacDonald, Mike MacKenzie, Stuart McMillan, Anne McTaggart and John Wilson).

**The Committee welcomes the support for the HE sector but would question whether this comes at a price in the cuts to the FE sector. Given the importance of ensuring skills are in place to fill the jobs that will come with the recovery the decline in the FE budget is regrettable.**

The following alternative to paragraph 184 to was disagreed to by division: For 3 (Patrick Harvie, Rhoda Grant and Anne McTaggart). Against 6: (Chic Brodie, Gavin Brown, Angus MacDonald, Mike MacKenzie, Stuart McMillan and John Wilson).

**The Committee welcomes the support for the HE sector but believes that this comes at a price in the cuts to the FE sector. Given the importance of ensuring skills are in place to fill the jobs that will come with the recovery the decline in the FE budget is unacceptable, particularly at a time when FE institutions are being asked to reorient their work to meet new Government commitments to 16-19 year olds, and may be placed in the position of having to merge with no additional funding to cover the costs which arise.**



The Scottish Parliament  
Pàrlamaid na h-Alba

## **Education and Culture Committee**

### **Report on draft budget 2012/13**

The Committee reports to the Finance Committee as follows—

#### INTRODUCTION

1. The Scottish Government published the Scottish Spending Review 2011 and Draft Budget 2012-13 on 21 September 2011. The Education and Culture Committee agreed that its scrutiny of these spending plans would focus on the issue of further and higher education funding. Specifically, the Committee agreed the following remit—

To consider the extent to which the allocations in the budget documents will be sufficient to meet the Scottish Government's priorities for further and higher education.

2. The Committee decided to focus on this area as it is one where considerable sums of public money are spent and one where the Cabinet Secretary for Education and Lifelong Learning has a significant degree of influence. As the Cabinet Secretary acknowledged in oral evidence, the overall spend on education is around £8.5 billion but around £5.8 billion of that goes directly to local authorities through the local government settlement, which is not subject to his decisions.

3. The Committee took evidence on further and higher education issues at three meetings, and also questioned the Cabinet Secretary for Education and Lifelong Learning and the Cabinet Secretary for Culture and External Affairs on other major spending commitments within their remits.

4. The Committee notes the Finance Committee's focus on scrutinising preventative spending. Paragraph 93 contains information on the Scottish Government's early years change fund, which should assist the Finance Committee's deliberations. The Education and Culture Committee will consider early years issues in more detail throughout this parliamentary session.

## FURTHER AND HIGHER EDUCATION

5. This section briefly sets out the higher and further education (HE and FE) policy context, before presenting the Committee's views on the Scottish Government's proposed allocations in these areas.

### **FE and HE: the policy context**

6. The draft budget is divided into five strategic chapters and eleven portfolio plans, including Education and Lifelong Learning.

7. The strategic chapters reiterate both the Scottish Government's stated Purpose<sup>1</sup> and the six strategic priorities contained in the Government Economic Strategy that underpin the Purpose. Bearing in mind the Committee's remit, the most relevant strategic priority is on Learning, Skills and Wellbeing, which acknowledges that "a skilled, educated and healthy workforce is essential to creating a more competitive and resilient economy".

8. Chapter nine sets out the spending plans for the Education and Lifelong Learning portfolio and states that—

"Education and lifelong learning are key contributors to economic recovery and the long-term economic growth in which we want everyone across Scotland to share.

"We are enabling people to support themselves and their families while making the maximum possible contribution to the success of Scotland's economy and society, and enriching our culture. These have been our guiding principles in making the tough choices demanded of us."

### *Scottish Government's priorities*

9. Chapter nine also contains the Scottish Government's priorities for the Spending Review period, including those relating to further and higher education.<sup>2</sup> These can be summarised as follows—

- maintain free access to higher education;
- invest significant sums in higher education which, along with fees for students from the rest of the UK and improving institutional efficiency, will maintain an internationally competitive and truly excellent university sector;
- reform post-16 education to produce a better learner journey that equips people with the right skills to enter and stay in work;

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<sup>1</sup> Creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.

<sup>2</sup> Scottish Government. (2011) *Scottish Spending Review and 2012-13 Draft Budget*. Available at: <http://scotland.gov.uk/Resource/Doc/359651/0121519.pdf> [Accessed 24 November 2011].

- deliver a minimum student income in higher education of £7,000 starting with the poorest students;
- conclude separate reviews of university and college governance;
- deliver 100,000 training opportunities;
- invest in 25,000 modern apprenticeship new starts, to be maintained throughout the Spending Review period.

10. The chapter also restates the Scottish Government's intention to provide all 16-19 year olds not already in learning or a job with "a training or education opportunity appropriate to their needs". In addition, the Scottish Government recently wrote a detailed letter of guidance to the Scottish Funding Council (SFC) outlining further, more detailed priorities for the sectors.

11. In short, there is a considerable range of far-reaching activity currently underway in FE and HE that will strongly influence the extent to which the Scottish Government's spending plans will deliver its policy priorities. The Committee's scrutiny of the Draft Budget must be seen within the context of this reform agenda, the details and results of which will not all be known until later.

12. It is particularly helpful to discuss in more detail *Putting Learners at the Centre*, the Scottish Government's pre-legislative paper on reforming post-16 education. If enacted, the proposals it contains could significantly alter the future shape of further and higher education provision.

#### *Putting Learners at the Centre*

13. [Putting Learners at the Centre](#) refers to work by the SFC which concludes that there is too much duplication and unnecessary competition within colleges and "regional universities". It notes that: "The financial pressures we face mean we can no longer afford a system of individual institutions serving overlapping areas."<sup>3</sup>

14. As a response to this challenge, the report places an emphasis on colleges, in particular, coming together collaboratively. It suggests that a series of mergers to create regional colleges of scale is the "best means" of achieving this, although not in all cases. It is proposed that the SFC begins regional planning and funding of provision for colleges from academic year 2012-13.

15. The white paper also states that there are overlaps in provision between some of the more regional universities (a term that is not defined) in urban areas and that there is "some room for some consolidation in the university sector". The paper suggests that the SFC should work more closely with universities "to consider how such overlaps are best removed through greater collaboration or, where the case exists, merger".<sup>4</sup> The possibility of introducing similar regional funding models for these

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<sup>3</sup> Scottish Government. (2011) *Putting Learners at the Centre*. Available at: <http://www.scotland.gov.uk/Resource/Doc/357943/0120971.pdf> [Accessed 24 November 2011].

<sup>4</sup> Scottish Government. (2011) *Putting Learners at the Centre*. Available at: <http://www.scotland.gov.uk/Resource/Doc/357943/0120971.pdf> [Accessed 24 November 2011].

universities as are proposed for colleges is also discussed. **The Committee invites the Scottish Government to provide clarity on what it means by the term “regional universities”.**

*HE and FE spending plans*

16. Having discussed the policy background, it is helpful to set out the overall budgetary context and to summarise the main spending trends for HE and FE strategic investment, as set out in the Draft Budget<sup>5</sup>. These allocations will be delivered to HE and FE institutions by the SFC.

- over the period of the UK Government’s Spending Review to 2014-15 the Scottish budget will decrease by 12.3% in real terms (£3,702 million in real terms). The biggest fall will be in the current financial year when the value of public spending will decline by 7% (£2,105 million in real terms) with the remaining 5.3% (£1,597 million in real terms) spread across 2012-13 to 2014-15;
- over the next financial year, the total SFC budget rises by 0.5% in cash terms, a reduction of 2% in real terms;
- over the Spending Review period, its cash terms increase is 1.7%, a real terms reduction of 5.9%;
- year on year, the budget for current expenditure for higher education institutions (HEIs) increases 8.2% in cash terms, a 5.6% increase in real terms;
- over the Spending Review period, the HEI budget rises by 14.6% in cash terms, or 6% in real terms;
- year on year, the budget for current expenditure for FE colleges will decrease by 6.9% in cash terms, a 9.2% annual decrease in real terms;
- current funding for FE colleges over the next 3 years falls by 13.6% in cash terms and 20% in real terms;
- capital investment for FE colleges and HEIs over the next 3 years falls by 38% in cash terms or 42.6% in real terms (capital spending plans for FE and HE are not disaggregated).

17. The tables below, provided by the FSU, show the changes in the SFC budget over the Spending Review period in cash terms and real terms—

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<sup>5</sup> Real terms figures provided by SPICe.

**SFHEFC BUDGET 2011-12 – 2014-15, LEVEL 3, CASH TERMS, £M**

|   | <b>2011-12<br/>Budget</b> | <b>2012-13<br/>Draft<br/>Budget</b> | <b>2013-14<br/>Plans</b> | <b>2014-15<br/>Plans</b> |
|---|---------------------------|-------------------------------------|--------------------------|--------------------------|
| Current Funding for Colleges            | 544.7                     | 506.9                               | 494.7                    | 470.7                    |
| Capital Grants for FE Colleges and HEIs | 91.0                      | 60.7                                | 45.9                     | 56.4                     |
| Current Funding for HEIs                | 926.2                     | 1002.2                              | 1041.5                   | 1061.7                   |
| SFHEFC administration                   | 8.4                       | 7.9                                 | 7.9                      | 7.9                      |
| <b>Total</b>                            | <b>1,570.3</b>            | <b>1,577.7</b>                      | <b>1,590.0</b>           | <b>1,596.7</b>           |
| annual % change                         | -                         | +0.5%                               | +0.8%                    | +0.4%                    |
| annual change £m                        | -                         | +7.4                                | +12.3                    | +6.7                     |

**SFHEFC BUDGET 2011-12 – 2014-15, LEVEL 3, REAL TERMS, £M**

|   | <b>2011-12<br/>Budget</b> | <b>2012-13<br/>Draft<br/>Budget</b> | <b>2013-14<br/>Plans</b> | <b>2014-15<br/>Plans</b> |
|---|---------------------------|-------------------------------------|--------------------------|--------------------------|
| Current Funding for Colleges            | 544.7                     | 494.5                               | 469.9                    | 435.4                    |
| Capital Grants for FE Colleges and HEIs | 91.0                      | 59.2                                | 43.6                     | 52.2                     |
| Current Funding for HEIs                | 926.2                     | 977.8                               | 989.4                    | 982.1                    |
| SFHEFC administration                   | 8.4                       | 7.7                                 | 7.5                      | 7.3                      |
| <b>Total</b>                            | <b>1,570.3</b>            | <b>1,539.2</b>                      | <b>1,510.4</b>           | <b>1,476.9</b>           |
| annual % change                         | -                         | -2%                                 | -1.9%                    | -2.2%                    |
| annual change £m                        | -                         | -31.1                               | -28.8                    | -33.5                    |

**Further education funding**

18. This section of the report considers in more detail the Scottish Government's proposed allocation to the SFC for further education. Both the Scottish Government and the SFC acknowledged in evidence that the settlement is tight and challenging.

19. The draft budget states that the "substantial adjustments" to the SFC's further education provision will be "accommodated" through—

- savings realised through *Putting Learners at the Centre*;
- rationalising provision associated with qualifications that, the Scottish Government believes, lack currency in the labour market and have had no testing against national standards for employer or vocational need;
- tightening up funding arrangements in respect of those who leave their course early;
- generating efficiencies through a programme of collaboration and merger, predicated on a move towards regional commissioning.<sup>6</sup>

20. The Draft Budget does not quantify the savings that each of these elements will realise. However, the Committee will scrutinise in more detail the proposals being made on rationalisation and regionalisation to ensure that education targets are being met. The Committee will also monitor drop-out rates to assess whether this has improved.

21. The Committee took oral evidence on further education funding from Scotland's Colleges, individual colleges and trade union representatives. Scotland's Colleges also provided a detailed written submission in which it outlined its strong concerns about the budgetary cuts.

#### *Staging the FE cuts*

22. As noted, current funding for FE colleges will fall over the next three years by 13.6% in cash terms, or 20% in real terms. These reductions follow last year's settlement which, Scotland's Colleges estimated, resulted in a 10% cut in colleges' resource revenues. While there was some support for the Scottish Government's overall policy direction, a recurring criticism made in oral evidence concerned the fact that the deepest cuts to the FE budget are scheduled for the first year of the Spending Review. Witnesses questioned why this reduction was being proposed at a time when colleges would be asked to help deliver the Scottish Government's various post-16 reforms.

23. Scotland's Colleges' written submission addressed the issue of the heaviest budgetary reductions being made in the first year—

“Our particular concern is that the budget for next year would ‘front-load’ that cut at 13% in real terms. We understand the Government's agenda for reform and have stated that we will work constructively in taking that forward; however we are concerned that this is not currently a budget for reform. Those reforms will take time to deliver, will likely have up-front costs, and will not be complete before the first year of this budget comes into force to allow savings of that extent to be made.”<sup>7</sup>

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<sup>6</sup> Scottish Government. (2011) *Scottish Spending Review and 2012-13 Draft Budget*. Available at: <http://scotland.gov.uk/Resource/Doc/359651/0121519.pdf> [Accessed 24 November 2011].

<sup>7</sup> Scotland's Colleges. Written submission, page 2.

*Mergers and collaborations*

24. In oral evidence, the Convener of Scotland's Colleges Principals' Convention stated that it would be difficult for the broader college sector to realise savings from mergers within the timescales available—

“For there to be savings in financial year 2012-13, we would have to set up mergers—and implement changes to save on salary costs, which is where a large proportion of cost savings would come from—in the next eight months. Yes, some discussions about mergers are going on among colleges, but for colleges that are not in that position and come from a zero starting point, achieving significant savings in 2012-13—of the order required to match up to the budget—will be a very tall order. In my experience of mergers ... it takes longer than eight months to finalise a merger. Savings are realised in years 2 and 3 rather than in that first period.”<sup>8</sup>

25. In terms of possible mergers and collaborations, the principal of the City of Glasgow College pointed out that a previous merger of three colleges in Glasgow had effectively saved £4.4m in the first year, with the possibility of savings of around £3m per annum in subsequent years. However, the SFC provided £8.5m of Merger Implementation Funding “plus enabling monies” to support this process<sup>9</sup>.

26. The Committee discussed with the SFC whether possible college mergers and collaborations could create a spike in initial costs for the institutions involved. The SFC's response indicated that there would be additional funding available to colleges for the costs of implementing the new approach—

“If you are going to merge institutions, or have deep collaborations between them, and if one of your reasons for doing so is to achieve greater financial efficiency, you have to be blunt and acknowledge that most of the costs for universities and colleges are staff costs. If you are to realise efficiencies, it will entail reducing the overall staff costs, and it will entail up-front investment. The funding council is clear about that. The guidance letter and the white paper indicate a significant reorganisation of the college sector, and we will have to make provision in order to deliver savings for a sustainable future.”<sup>10</sup>

27. The SFC also referred to possible risk factors in the period of transition to the new arrangements, for example, certain institutions getting into financial trouble or the possibility of industrial action.

*The Scottish Government's response*

28. The Committee raised the college sector's concerns about the staging of the cuts with the Cabinet Secretary. Mr Russell emphasised that the Scottish Government was working within a fixed settlement, where cuts were being made as a result of “the extraordinary pressure on the Scottish budgets”. He also reiterated the Scottish Government's desire to reform the sector, including by tackling high drop out rates,

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<sup>8</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 267.

<sup>9</sup> Scotland's Colleges. Written evidence, page 15.

<sup>10</sup> Scottish Parliament Education and Culture Committee. Official Report, 27 September 2011, Col 187.

focusing more on student employability, ending duplication of provision and encouraging greater collaboration amongst colleges.<sup>11</sup>

29. The Cabinet Secretary did not quantify the level of savings that are expected to be made through mergers, collaborations or regionalisation. He did state that the Scottish Government had to “force the pace” on this but added that “the bodies themselves will eventually have to make the decision”. He also pointed out that “merging is not an inevitability” and that regionalisation “will produce different results in different places”.<sup>12</sup>

30. In response to committee questioning, the Cabinet Secretary also confirmed that the current budget contains no equivalent to a merger implementation fund, which had been used for previous college mergers. He provided examples of where previous restructurings had delivered savings and stressed the need for collaboration between colleges, the SFC and the Scottish Government to ensure that restructuring is a success.

31. In general, the Cabinet Secretary stressed that there would be on-going dialogue between the Scottish Government, the SFC and the FE sector. The Scottish Government and the SFC have published a detailed paper on regionalisation and, later on, will publish more specific figures on the regional funding model. Overall, Mr Russell acknowledged the cuts to the college sector and stated that “...to be blunt, I believe that there is a need to reform the college sector to produce better results”. He also stated that: “The changes are hard, but they are achievable.”<sup>13</sup>

**32. The Committee accepts that there is a need for reform of the FE sector. If there is a significant problem with high drop out rates in colleges, a mismatch between qualifications and the labour market, and an overlap of provision, it is important that these matters be addressed. That said – and notwithstanding the assurances made by the SFC – the Committee accepts the FE sector’s concern about being asked to deliver significant change at a time when its budgets are being substantially cut, particularly in the first year. The Committee agrees with the Cabinet Secretary that the changes will be “hard” but not all members agree that the changes will be achievable.**

**33. The Committee considers that financial support would be extremely important in order to provide some stability to the sector as it prepares for the new approach, particularly mergers and collaboration. The SFC’s evidence, paragraph 26, suggested that such funding would be made available, although a precise figure was not identified. As a first step, the Committee would welcome clarification from the Scottish Government as to whether there will be additional support available for colleges.**

**34. While the Committee acknowledges that there is further consultation on the regional funding model for colleges, the Committee would draw the Scottish Government’s attention to the particular concerns of the college sector around the staging of the budget and, in particular, the impact on year 2012 - 13. The Committee notes that the “substantial adjustments” to the SFC’s further**

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<sup>11</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 315.

<sup>12</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 315.

<sup>13</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 317.

education provision over the Spending Review period are to be “accommodated”. Given this, the Committee also invites the Scottish Government to state whether it would be feasible to reduce the impact of next year’s cuts by adjusting its spending plans over the Spending Review period.

35. The Committee understands that there may be Barnett Consequentials of up to £67.5 million available to the Scottish Government for financial year 2012-13 as a result of the extension of the council tax freeze in England<sup>14</sup>. The Committee acknowledges the concern of the colleges that the combination of reform and cuts will be damaging and asks the Cabinet Secretary to explore the possibility of a share of Barnett Consequentials to ease the colleges’ transition to the new arrangements.

*Focus on 16-19 year olds*

36. Having discussed the staging of the FE budgetary reductions, within the context of possible mergers, the remainder of this section considers some of the other major issues raised in evidence by the FE sector. Scotland’s Colleges’ written evidence questioned what the Scottish Government’s commitment to 16-19 year olds would mean for other groups of learners—

“A further area of concern is in the shift of provision towards 16-19 year olds while resources are significantly constrained. This group of learners are more resource intensive than older groups, and the squeeze on those over 19 is; therefore, potentially disproportionate in terms of the numbers affected. While it is true that numbers of young people are falling overall, those becoming ‘NEET’ due to the economic circumstances are rising at a significantly higher rate. Our figures indicate that if colleges in Scotland took on one in four of those NEETs in that group, and continued to service 18-24 year olds to the same level, there would be no funded provision left for older learners who make up over half of learners over 16 years of age.”

37. The Cabinet Secretary responded:

“It would be a stark position if the figures were true, but the assumption that all the courses for 16 to 19-year-olds would be full time is a fatal flaw.”<sup>15</sup>

He also pointed out that the commitment to this group would be “resourced and delivered in a variety of ways: through modern apprenticeships and training places, through other training activity with employers, and in colleges and universities”.<sup>16</sup>

The Cabinet Secretary said that he could not yet give a figure for the cost of delivering the commitment.

38. The Scottish Government’s commitment to 16-19 year olds is of major significance not just in terms of the education budget but also in terms of the Scottish Government’s economic strategy and overall stated Purpose. The Committee would therefore welcome more detailed information on the funding and nature of the provision.

<sup>14</sup> <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm111018/text/111018w0001.htm>

<sup>15</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 324.

<sup>16</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 316.

*College provision*

39. Further education representatives were also concerned about how the draft budget will affect colleges' future provision. Scotland's Colleges' written submission summed up most of these concerns—

“A 20% cut in real terms will have a negative impact on the college sector over the next three years in terms of capacity and quality of education that can be delivered. While the impact will be different for each college depending on the local circumstances, and action taken in response to the previous year's cut to budgets, we expect the vast majority of colleges will lose staff, and that it is not possible it all be achieved on a voluntary basis. That in turn would reduce teaching capacity, student numbers and quality.”<sup>17</sup>

40. The submission went on to suggest that there could be as many as 20,000 fewer full time equivalent student enrolments over the course of the Spending Review period.

41. In terms of the possible impact on student places, the SFC cautioned that the “number of places is ... a concept that is not absolutely defined; it can be a headcount figure, an activity figure or whatever”. Borders College added that—

“There is a difference between a place for a full-time 16 to 18-year-old student, for whom bursary support would not be an issue because they would not be eligible, and a place for, say, an unqualified healthcare support worker who is working in a care home or an acute service in the national health service and who requires an essential qualification. Which places are we prioritising? If we are prioritising the places for 16 to 18-year-olds, the other places might go.”<sup>18</sup>

42. In oral evidence the EIS said it did not believe that student places could be maintained in terms of the number of student hours per course. That said, it acknowledged that certain variables could be reduced to keep the number of places the same “but the amount of FE delivery that each student receives would be cut so that a full-time student would be in college only two days a week”.

43. Borders College highlighted the possibility of future compulsory redundancies within the sector—

“We – like everyone else – are absolutely opposed to compulsory redundancies, but it is just not possible to continue to maintain a financially sustainable institution without reducing our staffing costs. If we cannot do that on a voluntary basis, we will have to do it on a compulsory basis.”<sup>19</sup>

*The Scottish Government's response*

44. The Cabinet Secretary rejected Scotland's Colleges' suggestion that the equivalent of 20,000 student places could potentially be lost as a result of the budgetary settlement—

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<sup>17</sup> Scotland's Colleges. Written evidence, page 2.

<sup>18</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 285.

<sup>19</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 282.

“The 20,000 figure cannot be justified, because there is no agreement between the funding council, the Government or the colleges on the final allocations. The 20,000 figure is speculation and I will not get involved in speculation.”<sup>20</sup>

45. The Cabinet Secretary also made clear that: “We will ensure that there are places for all those who require and ask for them, in colleges and in universities”. In terms of possible staffing reductions in FE, Mr Russell stated: “I do not want compulsory redundancies and I hope that they can be avoided.”<sup>21</sup>

#### *Student support*

46. Individual colleges provide bursary support to their students through allocations provided by the SFC. In response to a question about how bursary support will be maintained over the next three years, the SFC said “it is too early ... to weigh up all the different parts of the equation”. It made clear, however, that it would seek to balance the Scottish Government’s commitments with the other demands on colleges and ensure that “the level of bursary is sufficient to fulfil the Government’s commitment that nobody should be prevented from going to college ... because they cannot afford to do so”.<sup>22</sup>

47. The Committee asked the Cabinet Secretary whether the Scottish Government will maintain living-cost support for further education students. The Cabinet Secretary said “Yes. We will continue to honour our commitments on bursaries.” The Committee also asked later whether students will experience a real-terms decrease in living costs support over the spending review period. The Cabinet Secretary responded—

“That will depend very much on two factors—the general financial climate and what we can continue to do through mid-year adjustments. I hope that a decrease will not occur, but we will need to keep looking at that. Alas, the reality of the situation is the unnatural financial settlement under which we are working.”<sup>23</sup>

**48. The budget settlement will clearly have significant ramifications for the FE sector, across a wide range of issues, although there is disagreement at this stage as to the precise nature of that impact. The Committee’s focus is on whether the Scottish Government will be able to deliver its FE commitments within the funding settlement provided. Given the sheer breadth of the reform programme, significant parts of which are still being consulted upon, and the consequent lack of detail in certain areas, it is not possible to assess the budget settlement fully at this stage. Therefore, the Committee will continue to monitor programmes in this area.**

**49. Considering the potential for disagreement about exactly what constitutes a ‘student place’, the Committee considers that this should be clarified by the SFC as soon as possible so that the Committee is able to monitor the impact in this area. In particular, any changes must be transparent and establish a baseline that would allow comparisons to be made with previous years. The Committee**

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<sup>20</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 318.

<sup>21</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 321.

<sup>22</sup> Scottish Parliament Education and Culture Committee. Official Report, 27 September 2011, Col 193.

<sup>23</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 333.

**intends to return to this and other issues highlighted above when the more detailed allocations to individual FE institutions are made by the SFC.**

### **Higher education**

50. This section of the report considers the main issues raised in evidence concerning the draft higher education budget. The Committee took oral evidence from a range of former and current university principals, and from union representatives.

51. Overall, the Committee acknowledges that there has been a broadly positive reaction to the HE settlement from the university sector. The Committee also acknowledges that the Scottish Government has delivered its commitment to maintaining free access to higher education for Scottish-domiciled students.

52. The 2012-13 Draft Budget states—

“We will invest significant sums in higher education over the period of this Spending Review. This settlement for universities, when taken together with our proposals on fees for students from the rest of the UK and the measures to improve efficiency across our institutions, will ensure that we maintain a university sector that is internationally competitive and truly excellent in world terms.”<sup>24</sup>

53. While the draft budget does not use the terminology, Universities Scotland’s written evidence states that “the teaching funding gap is closed by 2014/15”. It states that this is achieved by the Scottish Government’s investment of £135.5m over the Spending Review period; from estimated revenue from rest of UK fees of approximately £56m by 2014/15; and from universities’ cash-releasing efficiency savings of £26m.

#### *Fees and efficiency savings*

54. In oral evidence, the Committee questioned how fees and efficiencies would deliver the sums predicted.

55. Professor Seamus McDaid, principal of the University of the West of Scotland and chair of the Universities Scotland efficiencies task force, stated that sectoral savings of £143.1 million had already been made. He also said that he was “reasonably confident of achieving efficiencies without hitting front-line services”. Professor McDaid did not specify exactly how further efficiencies would be realised, but mentioned areas such as information and communications technology, shared services and estates, and procurement. It is unclear what the impact on the funding gap will be should English universities manage to deliver similar or greater efficiencies.<sup>25</sup>

56. In terms of tuition fees, the university principals acknowledged the general uncertainty across the UK associated with predicting the future admissions process and tuition fee receipts. The principal of the University of Edinburgh made clear some of the difficulties in this area—

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<sup>24</sup> Scottish Government. (2011) *Scottish Spending Review and 2012-13 Draft Budget*. Available at: <http://scotland.gov.uk/Resource/Doc/359651/0121519.pdf> [Accessed 24 November 2011].

<sup>25</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 238.

“In the University of Edinburgh’s modelling, we have considered the possibility of an increase of up to 20 per cent in rest-of-UK students ... At the same time, we have modelled the possibility of a 20 per cent drop. Anybody who works in a planning department of any UK university has great difficulty in predicting what will happen. My intuition – I emphasise that it is an intuition – is that the assumptions that the Scottish Government has made in its spending review are about right and that we will have reasonable stability. However, I certainly would not bet money on that, because the most dramatic change in the lifetime of anybody who is sitting round the table will take place in the pattern of the fee structure across the UK. We would therefore be foolish to say that we know exactly or even approximately what will happen.”<sup>26</sup>

57. The Committee also briefly discussed the issue of an EU maintenance fee, which had previously been discussed as a further possible contributor towards closing the teaching gap. Universities Scotland cautioned that—

“... the proposition is not absolutely straightforward. A lot of legal investigation will certainly be needed, so it is premature to make any projection of the income that the proposition might realise in the spending review period.”<sup>27</sup>

58. The Committee will return to the issue of tuition fees in more detail this session, when it scrutinises forthcoming Scottish Government legislation in this area. In terms of its current budget scrutiny, the Committee asked the Scottish Government whether it would commit to making up any shortfall from tuition fees (and efficiencies) given that these sources are unpredictable. The Committee also asked what would happen to the future sums that the Scottish Government intends to commit to HE should receipts from these two sources be greater than expected.

59. The Scottish Government provided the following written response—

“We are investing an additional £327 million in Scottish universities over the three year period, with real terms increases of more than 5% in each year. This will ensure Scottish universities remain internationally competitive. It will also ensure their financial stability. This contrasts starkly with the situation in England where there is continuing uncertainty about income levels from tuition fees and speculation about the financial viability of some English universities. We need to give universities the ability to undertake planning, so there is no current expectation that the fee level will change.”<sup>28</sup>

**60. The Committee remains unclear as to the implications for universities, should receipts from tuition fees and efficiencies vary in the manner suggested in paragraph 58. The Committee therefore invites further clarification from the Scottish Government.**

#### *Other HE reform*

61. As with further education, there are significant policy changes expected in the higher education sector that are relevant to the spending proposals. Universities are

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<sup>26</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 241.

<sup>27</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 242.

<sup>28</sup> Scottish Government. Written evidence, page 2.

included in the Scottish Government's post-16 reform proposals, while the Scottish Government also proposes to reform HE student support.

*HE student support*

62. The 2012-13 Draft Budget states—

“In 2012, we will develop proposals for a minimum student income of £7,000, starting with the poorest students, with a view to implementing this alongside a simpler system of higher education student support from 2013-14. The actual amount of student loans required by the Scottish Government will be determined as part of developing that policy.”<sup>29</sup>

63. The budget for HE student support is delivered through the Student Awards Agency for Scotland (SAAS). Over the next financial year, the SAAS budget will increase by 8% in cash terms, 5.4% in real terms. Over the Spending Review period, there will be a cash terms and real terms increase of 65.4% and 53% respectively.

64. The vast majority of this increase is accounted for by a significant rise in student loan provision, a budget line that is due to more than double over the Spending Review period. However, this budget line is subject to change as student loan provision is based on student demand and is therefore Annually Managed Expenditure (AME). The Draft Budget explains that the figures for ‘student loan new lending’ are forecasts and relate to the amount of AME funding for student loans which HM Treasury made available to the Scottish Government through the 2010 UK spending review.

65. The budget line for HE ‘student support and tuition fee payments’ (which includes funding for HE bursary/grant support) will fall over the Spending Review period by 6.8% in cash terms, 13.8% in real terms.

66. In response to a Committee question on why this budget line is declining, the Cabinet Secretary responded in supplementary evidence that—

“This is a consequence of our plans to create a simpler system of student support. The objective is to increase student income at university and we'll be doing this primarily by increasing the amount of student loans available. The draft budget shows those lines increasing over the Spending Review.”<sup>30</sup>

67. The Committee asked when the minimum income guarantee will be realised. The Committee also asked whether the scale of funding would enable improvements in student support beyond this commitment. The Cabinet Secretary stated that the minimum income guarantee would be delivered during this spending review period, at the start of academic year 2013-14 at the earliest, and that the Scottish Government was consulting on further changes to student support.

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<sup>29</sup> Scottish Government. (2011) *Scottish Spending Review and 2012-13 Draft Budget*. Available at: <http://scotland.gov.uk/Resource/Doc/359651/0121519.pdf> [Accessed 24 November 2011].

<sup>30</sup> Scottish Government. Written evidence, page 2.

68. In addition to the minimum income guarantee, the Scottish Government is establishing a working group to develop proposals for the simplification of the student support system.

**69. The Committee will continue to monitor the development of this policy over the parliamentary session.**

*Collaborations and mergers*

70. The Committee discussed the issue of university collaborations and mergers in some depth, particularly the possibility of a merger between Abertay and Dundee universities. This option was originally suggested in correspondence from the SFC to the institutions, in light of both the principal's vacancy at Abertay and the Scottish Government's post-16 reform proposals.

71. The SFC's approach to this case attracted some criticism, particularly from unions and from Lord Sutherland, the former principal of the University of Edinburgh. Witnesses considered that the five week timescale the SFC gave to the universities to consider whether to proceed with a merger was insufficient, as mergers, in general, can take a considerable amount of time. There was also a consensus that, more generally, mergers should be undertaken only where there is an over-riding educational case for doing so, and that the process should not be driven by financial considerations alone.

72. On a broader note, the principals who appeared before the Committee did not consider that their institutions were likely to be engaged in mergers, making it difficult for the Committee to assess the impact of this possible approach. As with further education, the savings that could be realised from possible university mergers or collaboration are not discussed in the draft budget.

**73. The Committee agrees that mergers should only be conducted where there is a clear educational and financial merit in doing so, and where the parties involved agree that it is the correct way to proceed. Further, mergers can be complex and time-consuming processes and will only work if a realistic timetable for progress is established and the parties involved are committed to working together. Such planning will also help to ensure that the student experience is not unduly affected.**

**74. The Committee expects an update from the Scottish Government and the SFC, as soon as the situation is clearer, on the likely extent of mergers and collaborations across both HE and FE; the Committee is mindful that regional funding is starting in 2012-13.**

*Principals' salaries*

75. Given the sums of public money being committed to higher education over the Spending Review period, the Committee asked university principals to justify why their salaries were as high as, or higher than, those of the Prime Minister or First Minister.

76. In response, it was pointed out that most principals did not intend to take further pay increases, even where that may have been justifiable under contract. It was also

claimed that salaries were not “particularly notable”<sup>31</sup> compared with universities in other countries, and that high salaries demanded high standards of performance from principals.

**77. The Committee agrees that the increased sums of public money being provided to HE at a time of general budgetary constraint require high levels of performance from university principals. While principals’ remuneration is decided by individual institutions, the Committee acknowledges the importance of the need for restraint in pay being fully recognised in the sector.**

**Issues of relevance to FE and HE**

78. The preceding paragraphs have focussed on the particular issues facing the FE and HE sectors, while also making clear that there are some common challenges. This section briefly considers two other areas of common concern: capital spend and equalities.

*Capital spend*

79. Both FE and HE representatives expressed some concern about the capital settlement contained in the 2012-13 Draft Budget. As noted, capital investment for FE colleges and HEIs over the next 3 years will fall by 38% in cash terms or 42.6% in real terms (capital spending plans for FE and HE are not disaggregated).

80. Universities Scotland’s written evidence stated that the university estate has an investment backlog of £1 billion “with only a bare majority in fit-for-purpose condition”. It also pointed out that—

“This will also inhibit the pursuit of capital projects capable of delivering greater efficiencies through the rationalisation of the estate or combined estates between universities or universities and colleges and the pursuit of more environmentally sustainable buildings/infrastructure which could also deliver greater energy efficiency, thus reducing costs.”<sup>32</sup>

81. Scotland’s Colleges’ written submission noted that—

“Many college facilities still remain in need of upgrade and adequate funds are needed to help develop and maintain those facilities and ensure these are not overlooked while undertaking reforms.”<sup>33</sup>

**82. Given the evidence that reductions in the capital budget may impact on the proposals for closer working between universities and colleges, the Committee would welcome evidence from the FE and HE sectors that they are working together to address this issue.**

*Equalities issues*

83. While this report is addressed to the Finance Committee, the Equal Opportunities Committee has also asked committees to set out how equality considerations were built into their budget scrutiny.

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<sup>31</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 261.

<sup>32</sup> Universities Scotland. Written evidence, page 3.

<sup>33</sup> Scotland’s Colleges. Written submission, page 17.

84. As this report has made clear, there is a considerable range of new policy developments being proposed throughout this Spending Review period. It is not possible for the Committee to analyse in depth the impact of each of these changes on all equality groups. That said, the Committee has already highlighted Scotland's Colleges' concerns about the possible impact on older learners if there is to be a greater emphasis on provision for 16-19 year olds. There are some other issues that the Committee wishes to highlight briefly in this section.

85. The Committee received a communication from the Scottish Consortium for Learning Disability suggesting that around a third of places had been cut in part-time courses for students with learning disabilities. In oral evidence, the three college principals who responded stated that they had not reduced provision for this group. The Cabinet Secretary added—

“I expect that all college principals will want to ensure that those who are most in need will continue to be served and supported and I am quite sure that they will focus on that group in particular.”<sup>34</sup>

86. The Cabinet Secretary also expressed his determination to ensure that part-time students would not be adversely affected by the budget settlement, an issue that was raised with the Committee by the Open University.

87. The principal of John Wheatley College, which serves some of the most deprived communities in Scotland, considered that—

“resources must be prioritised for the poorest communities in Scotland. A key function of further education is to help to address the Government's economic agenda of having a fairer, wealthier and healthier Scotland, but resources may not be available for cohorts of learners when they need them the most.”<sup>35</sup>

88. The principal of Borders College said—

“We are concerned about the impact of decisions on provision for the most vulnerable—individuals with disabilities and learning difficulties—and on part-time opportunities, which are largely taken up by women.”<sup>36</sup>

89. In discussing the general question of access, the Cabinet Secretary restated his intention to find ways of legislating on widening access and said that he wants to “redouble our efforts with regard to certain vulnerable and hard-to-reach groups”.<sup>37</sup> He also rejected a suggestion in questioning that students in areas of economic deprivation were more likely to go to colleges than universities and that cutting college budgets was therefore likely to have a disproportionate effect on the poorest areas.

**90. The Committee recognises that there are obligations on the Scottish Government and relevant public sector bodies to make decisions in accordance with the relevant equality duties. While the Committee acknowledges that the**

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<sup>34</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 328.

<sup>35</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 266.

<sup>36</sup> Scottish Parliament Education and Culture Committee. Official Report, 4 October 2011, Col 285.

<sup>37</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 328.

**Scottish Government produced an Equality Statement for the budget, given the scale of reform across FE and HE, the Committee would welcome updates from the Scottish Government and the SFC demonstrating that relevant equalities considerations are being taken into account.**

**91. As with some other areas of the Spending Review, the impact of the budget and new policy proposals on the hardest to reach students will not become clearer until later. The Committee considers it a priority for the Scottish Government to keep it updated on how this group is performing over the Spending Review period.**

*Early years preventative spending*

92. A final point the Committee wishes to raise in this section concerns the Scottish Government's early years change fund. The Committee asked the Cabinet Secretary for further information on this fund given the Finance Committee's request that other committees support its broader scrutiny of the Scottish Government's progress on preventative spending.

93. The Scottish Government provided the following response—

“The £50 million Early Years Change Fund is incorporated in the Positive Futures budget line. £10.5 million is expected to be distributed in 2012-13. The £1.5 million Families and Communities Fund is part of that £10.5 million.”

94. The Committee restates its intention to consider early years issues in more detail throughout this parliamentary session.

#### CULTURE SPEND

95. This section of the report considers the Scottish Government's proposed spend on culture. Given the time available, the Committee's scrutiny of this area was limited to a single evidence session with the Cabinet Secretary for Culture and External Affairs.

96. SPICe provided the following table to the Committee to inform its questioning of the Cabinet Secretary – it shows changes to the culture budget over the Spending Review period:

**Level 3 spend in real terms**

|                                | Budget        | Draft Budget  |               |               | Annual change            |                         | Change over 4 years      |                         |
|--------------------------------|---------------|---------------|---------------|---------------|--------------------------|-------------------------|--------------------------|-------------------------|
|                                | 2011-12<br>£m | 2012-13<br>£m | 2013-14<br>£m | 2014-15<br>£m | 2011-12 to 2012-13<br>£m | 2011-12 to 2012-13<br>% | 2011-12 to 2014-15<br>£m | 2011-12 to 2014-15<br>% |
| Creative Scotland & Other Arts | 53.0          | 50.6          | 48.2          | 46.6          | -2.4                     | -4.5                    | -6.4                     | -12.0                   |
| Cultural Collections           | 77.0          | 71.6          | 66.0          | 64.4          | -5.4                     | -7.0                    | -12.6                    | -16.4                   |
| National Performing Companies  | 24.6          | 23.3          | 22.4          | 21.5          | -0.7                     | -5.2                    | -3.1                     | -12.8                   |
| <b>Total Culture</b>           | <b>154.6</b>  | <b>145.6</b>  | <b>136.6</b>  | <b>132.5</b>  | <b>-9.0</b>              | <b>-5.8</b>             | <b>-22.1</b>             | <b>-14.3</b>            |

*The Scottish Government's cultural priorities*

97. In her opening statement to the Committee, the Cabinet Secretary said that her budgetary priorities were—

- to protect the provision of front-line services so to minimise the impact of reductions in Scotland's cultural and heritage sector as far as possible;
- to deliver key cultural capital projects over the next three years that will strengthen the cultural infrastructure and contribute to economic growth.<sup>38</sup>

*Budgets for individual bodies*

98. Ms Hyslop said that her approach means that there will be no reductions for 2012-13 in the revenue budgets of the national collections and national performing companies.

99. The Committee questioned why there is a proposed two per cent cash reduction in Creative Scotland's core revenue budget, given that it is only one year old and may not, therefore, have the same opportunities for efficiencies as more established organisations. The Cabinet Secretary responded that Creative Scotland did not have to make reductions last year when other organisations did. She added that Creative Scotland "is managing to consider efficiencies" and is seeking to protect front-line services. She also pointed out that Creative Scotland "has expressed ... confidence that it will be able to continue to deliver the strong programme that it has in place".<sup>39</sup>

<sup>38</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 296.

<sup>39</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 300.

100. Within the Cabinet Secretary's budget, Historic Scotland and the National Records of Scotland will experience the biggest reductions. Historic Scotland's staff budget is dropping by around 13.6 per cent over four years while its capital allocation will be reduced to zero. The Cabinet Secretary reassured the Committee that "Historic Scotland can compensate for that reduction from growth in its income".<sup>40</sup> She also confirmed that staff will not face any compulsory redundancies.

101. In terms of capital spend, Historic Scotland confirmed in oral evidence that the capital reduction was not problematic because its work on scheduled monuments is treated as revenue, as they are heritage assets. Historic Scotland clarified that: "Those assets are not in our accounts and are not valued in the same way as a modern building would be valued."<sup>41</sup>

102. In terms of the National Records of Scotland, the Cabinet Secretary said that the reduction in its census-related activities would help it to make some efficiencies.

103. In general terms, the Cabinet Secretary made the point that: "Public expenditure of taxpayers' money will be displaced and replaced by self-generated income. In difficult times, that should be welcome."

104. While the Cabinet Secretary's evidence was, understandably, focussed on budgetary stability or budgetary reduction, Ms Hyslop also confirmed new funding from the Young Scots fund. The fund will support the creation of a new national conservation centre and a national centre for youth arts.

#### *Budgetary limitations*

105. Having set out her spending plans, the Cabinet Secretary warned that there would be no capacity for additional Scottish Government funding over the Spending Review period—

"the most tangible outcome of the budget reductions is that we will be very limited in our flexibility to respond to new initiatives during the financial year. ... all spending on culture will come from the planned expenditure of the organisations that we fund.

Crucially ... I will not be able to respond to new one-off funding requests from other organisations, including local authorities, or provide bail-outs for local cuts. The Scottish Government simply does not have the capacity to be seen as the funder of last resort for the culture and heritage sector."<sup>42</sup>

106. The Cabinet Secretary also pointed out that local authorities collectively spend more money on culture than the Scottish Government. Ms Hyslop added—

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<sup>40</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 303.

<sup>41</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 311.

<sup>42</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 298.

“I hope that the companies and collections will be able to work more collaboratively with local authorities to ensure greater accessibility, but I cannot take responsibility for local authorities’ budgets.”<sup>43</sup>

*Conclusion*

**107. Overall, the Committee welcomes the approach taken by the Cabinet Secretary to utilising the reduced resources under her control. In particular, the Committee welcomes the prioritisation of front-line services and the focus on delivering key cultural capital projects**

*Level 4 spending*

108. A final point that the Committee wishes to raise, which is relevant to both culture and education, concerns the provision of ‘level 4’ budgetary information. Such figures are important as they provide more detailed information than is contained in the budget documents, which can enable committees to scrutinise the Scottish Government’s spending plans more closely.

109. The newly revised written budget agreement between the Finance Committee and the Scottish Government sets out the type of level 4 data that the Scottish Government will provide. The agreement makes clear that “there is ... a presumption for information below “level 3” to be released”.

110. The Committee wrote to the cabinet secretaries on 12 September to request that level 4 data be provided as soon after the publication of the draft budget as possible. However, the information did not arrive until 24 October, the day before the Committee’s evidence-taking sessions with the cabinet secretaries. This significantly reduced the time available to the Committee to analyse the information and to use it to inform its questioning of the Scottish Government. The Cabinet Secretary for Culture and External Affairs stated that there was no obligation to produce the figures and pointed out that there was very little difference between the level 3 and level 4 data.

**111. The Committee is aware that this is a very long-running issue that has been addressed previously in several committees’ reports – the Session 3 Education, Lifelong Learning and Culture Committee committee’s legacy paper, for example, noted its “frustration” over the difficulty in obtaining level 4 figures. Nevertheless, it is important to restate the fact that the Scottish Government must, within reason, provide committees with all the information they require in order to carry out effective scrutiny. The Committee considers that if the culture level 4 data were very similar to the level 3 figures, this would be reason to provide the information earlier rather than later. The Committee also considers that a written agreement between the Finance Committee and the Scottish Government is sufficient authority for the provision of level 4 data, but invites the Finance Committee to reconsider whether this particular point can be strengthened further.**

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<sup>43</sup> Scottish Parliament Education and Culture Committee. Official Report, 25 October 2011, Col 302.

**EXTRACTS FROM THE MINUTES OF THE EDUCATION AND CULTURE COMMITTEE**

**2nd Meeting, 2011 (Session 4), Tuesday 28 June 2011**

**Work programme:** The Committee considered its work programme. The Committee agreed to seek approval for the appointment of an adviser in connection with its budget scrutiny and to consider a ranked list of candidates, in private, at its next meeting.

**3rd Meeting, 2011 (Session 4), Tuesday 6 September 2011**

**Work programme:** The Committee considered its work programme. The Committee agreed to focus its budget scrutiny on further and higher education funding issues and to hold an inquiry on the educational attainment of looked after children.

**6th Meeting, 2011 (Session 4), Tuesday 27 September 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Mark Batho, Chief Executive, Scottish Funding Council;  
Robin Parker, President, NUS Scotland;  
Mary Senior, Scottish Official, University and College Union Scotland;  
David Belsey, National Officer, Further and Higher Education, The Educational Institute of Scotland;  
Lord Sutherland.

**7th Meeting, 2011 (Session 4), Tuesday 4 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Alastair Sim, Director, Universities Scotland;  
Professor Seamus McDaid, Principal and Vice-Chancellor, University of the West of Scotland;  
Professor Ferdinand von Prondzynski, Principal and Vice-Chancellor, Robert Gordon University;  
Sir Timothy O'Shea, Principal and Vice-Chancellor, University of Edinburgh;  
John Spencer, Convener of Scotland's Colleges' Principals' Convention, Scotland's Colleges;  
Paul Little, Principal and Chief Executive Officer, City of Glasgow College;  
Liz McIntyre, Principal, Borders College;  
Alan Sherry, Principal, John Wheatley College.

**8th Meeting, 2011 (Session 4), Tuesday 25 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Fiona Hyslop MSP, Cabinet Secretary for Culture and External Affairs;  
Linda Ellison, Director of Finance, Historic Scotland;  
David Seers, Team Leader, Cultural Excellence Team, and Wendy Wilkinson, Deputy Director, Culture Division, Scottish Government;  
Michael Russell MSP, Cabinet Secretary for Education and Lifelong Learning;  
Shirley Laing, Deputy Director for Early Years and Social Services Workforce, and Andrew Scott, Director of Employability, Skills and Lifelong Learning, Scottish Government;  
Sarah Smith, Director of Learning, Scottish Government.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered the evidence taken at agenda item 2.

**10th Meeting, 2011 (Session 4), Tuesday 8 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011. Various changes were agreed to, and the Committee agreed to consider a revised draft at its next meeting.

**11th Meeting, 2011 (Session 4), Tuesday 15 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered a revised draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.



The Scottish Parliament  
Pàrlamaid na h-Alba

## **Equal Opportunities Committee**

### **Report on the Spending Review 2011 and the Draft Budget 2012-13**

We report to the Finance Committee as follows—

#### INTRODUCTION

#### **Approach**

1. Global economic uncertainty and the UK Government's austerity programme frame the Scottish Government's Spending Review 2011 and Draft Budget 2012-13. What is certain is that the Scottish budget will reduce in value. In times such as these, the position of those facing inequality is all the more vulnerable. There are fears that spending on reducing inequality could suffer in the need to make savings. Moreover, inequality detracts from economic performance and social well-being. Equality is therefore of paramount importance to spending decisions.

2. We structured our approach to scrutiny as follows—

- key equality themes arising from the Draft Budget 2012-13, with an emphasis looking not exclusively at race and religion, as part of a rolling annual programme in draft Budget scrutiny, to cover all of the protected characteristics over this parliamentary session;
- review of the former Equal Opportunities Committee's recommendations on the Draft Budget 2011-12;
- scrutiny of the Equality Statement, informed by the work of the Equality Budget Advisory Group.

3. We believe that, as well as considering key themes arising this year, this approach provides continuity on the issues identified last year. Scrutiny should be a continuous process helping to inform subsequent scrutiny of the Scottish Government's budget, rather than a repetitive, short-term annual exercise. We will therefore return to the structural issues raised in this report in a mid-year exercise.

4. In the interests of mainstreaming, we also wrote to other committees involved in budget scrutiny to request from each a short report setting out both the steps they took to consider equalities in draft-budget scrutiny and their findings. This new approach to scrutinising the Equality Statement is discussed from paragraph 133 onwards.

5. Our deliberations were informed by advice from our external, expert adviser, Colin Lee, appointed on 13 September 2011.
6. A glossary of acronyms used in the report is appended.

### **Evidence**

7. We thank all individuals and organisations that submitted evidence to us. All evidence received is publicly available<sup>1</sup>.

## KEY EQUALITY THEMES

### **Strategic context**

#### *Resource-to-capital revenue shift*

8. The Draft Budget 2012-13 proposes a £200-million-a-year shift, over the Spending Review period, from resource spending to capital investment for infrastructure development, to off-set in part a 36.7% capital reduction in the Scottish block grant. Though there is a clear rationale for this significant budgetary shift, namely to help boost economic recovery through job creation and develop a stronger capital infrastructure, the impact of the shift on people with different characteristics seems not to have been explicitly identified. For example, this policy is intended to benefit the construction industry, in which ethnic minority groups are under-represented: 1.0% of those employed in construction are from ethnic minorities, compared with 2.6% across all industries and 2.75% of the economically active. We believe it is reasonable to assume similar under-representation in the industry of women and disabled people.

#### *Scottish Government*

9. The Cabinet Secretary stated that the judgment in answering this question hinged essentially on the long-term benefit of that capital expenditure—

“For example, there might not be a high proportion of individuals from ethnic minorities employed in the construction sector ... but all our citizens will benefit from an enhanced and improved infrastructure. Once a health centre is built, for example, it is there to benefit everybody in the relevant community.”<sup>2</sup>

10. He added that whether, in the interim, opportunities for people from ethnic minority communities would be restricted depended on “an assessment of the remainder of the Government’s interventions”. Asked whether, in the context of employment in the construction industry, there had been an equality impact assessment (“EqIA”) of the impact on black and ethnic minority groups or, indeed, on gender, the Cabinet Secretary stated—

“An equalities assessment will have been done across each of the portfolios of Government expenditure, so the issue ... of the resource to capital transfer will have been assessed for equalities purposes. I do not think that the Government

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<sup>1</sup> Compiled evidence to the Equal Opportunities Committee on the Spending Review 2011 and Draft Budget 2012-13 is in Volume 3, Annex P, of the Finance Committee’s report.

<sup>2</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 95

has done a standalone assessment of the equalities issues in the construction industry ...”<sup>3</sup>

11.He added that the Government had embarked on a programme called Opportunities for All and if the opportunities turned out not to be available to everyone, the Government would intervene.<sup>4</sup>

#### *Conclusion*

12.While we recognise the reasons for the resource-to-capital revenue shift, **we remain concerned that there was no specific EqIA on ethnic minority, disability and gender impact**, particularly considering the under-representation of those groups in the full range of construction industry jobs, including developing, civil engineering, demolition, electrical and plumbing installation and finishing. **We therefore ask the Scottish Government to undertake an EqIA specific to this spending decision and report to us on the outcome.**

#### *Preventative spend*

13.The Draft Budget highlights some focus on preventative spend under the headings Change Fund for Older People’s Services, Early Years and Early Intervention Change Fund, and Reducing Re-Offending Fund. It also refers to generating savings in longer-term public expenditure, for example via early intervention on early years or extra support to the individual to stop re-offending.

14.Patricia Armstrong, Chief Executive, Association of Chief Officers of Scottish Voluntary Organisations, said—

“It is important that, as well as considering preventative spend for the nation as a whole and in terms of demographics, we consider how preventative spend can make a difference to the equalities groups.”<sup>5</sup>

#### *Scottish Government*

15.The Cabinet Secretary was asked about preventative spend in the context of the anticipated financial return from the change fund for older people’s services. He stated that the expected return from the change fund related essentially to a growing challenge providing elderly care in a fashion satisfactory to members of the public, resulting from the population’s increased longevity and the increasing number of individuals who therefore require assistance. He explained—

“The change fund has two objectives. First, it is intended to ensure that the type of care that is provided for individuals is appropriate to their needs. That could involve ensuring that they are treated or supported at home rather than in an acute hospital; it is clearly much more expensive to treat somebody in an acute hospital than to support them at home, particularly when being in an acute hospital might not be in their best clinical interests. Secondly, it is intended to ensure that we meet the expectations of individuals and ensure that the support and care that are in place for them are appropriate to their needs. Among all that, the Government expects the arrangements that we have in place to have the

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<sup>3</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 95-6

<sup>4</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 96

<sup>5</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 73

capability to meet the needs of individuals within the care environment. Clearly, if we do not act in this fashion the cost to the public purse, particularly in some areas of the public sector, will be increasingly difficult for us to sustain. We must find a sustainable model and, essentially, the change fund assists us in doing that.”<sup>6</sup>

### *Conclusion*

**16. We will continue to monitor the impact of preventative spend, throughout the year, on longer-term savings in public expenditure by seeking evidence from the Scottish Government on work and spend allocated to equality groups through the Change Fund for Older People’s Services, the Early Years and Early Intervention Change Fund and the Reducing Re-Offending Fund and any other relevant funds to enable a measurement of the longer-term savings generated.**

### **Health, Wellbeing and Cities**

#### *Demonstrating how equality groups’ needs have been considered*

17. The Equality Statement states the requirement on NHS boards, through their local delivery plans, to demonstrate how they have considered equality groups’ needs in meeting performance requirements. This includes EqIAs. Devolved decision-making is passed onto NHS boards on services and budgets. The Draft Budget allocates £11.6 billion to Health in 2012-13, rising to £11.9 billion in 2014-15 but is unclear on how much of this will be spent on ensuring equality groups have access to healthcare services across all Health-portfolio areas. **We are concerned about how EqIAs are quality assured and improved, across NHS boards (and other public bodies).** Furthermore, evidence to us suggested that **NHS boards still had a long way to go to demonstrate fully that their services are meeting the needs of ethnic minority communities.**

18. Pauline Craig, Head of Equality, NHS Health Scotland, said that there was “quite a lot of capacity” in the NHS around EqIAs and “lots of evidence” that they were happening but not of their impact.<sup>7</sup> She added—

“The question is how to get the results of impact assessments built into planning. We are not sure whether we are doing impact assessments at the right time. We can say whether a policy or service will perhaps not have an impact, but how do we get people to plan from the beginning so that retrospective thinking is not needed? That will be a focus for a lot of our impact assessment work over the next few years, rather than just getting people to do impact assessments.”<sup>8</sup>

19. Pauline Craig also commented on health improvement, efficiency, access to services and treatment (“HEAT”) targets—

“It may be that a target for data collection in the health service will be a step towards equality. It would not be the complete answer, but it would ensure more comprehensive data collection. At the moment, some health boards are very good at collecting data, but others are not. One health board has imposed a local

<sup>6</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 94

<sup>7</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 64

<sup>8</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 64-5

target for data collection, and that has become part of the corporate objectives for managers, so the board's figures have come right up. A target on data collection may therefore be something for other boards to consider.”<sup>9</sup>

*Scottish Government*

20. Asked about evidence of the effect of EqlAs, the Cabinet Secretary stated—

“A team of equalities officers operates in the national health service in Scotland to ensure that NHS organisations focus on the delivery of their equality duties. There has been particular focus on issues of mental health and racial equality, and there has also been a focus on translation, interpreting and communications support and on health conditions that might affect particular groups.”<sup>10</sup>

21. He was also asked about creating a HEAT target for all NHS boards—

- to reach the 75% target for data collection on service-user ethnicity within 2 or 3 years;
- to demonstrate over the same period that data collected was used to improve services and patient satisfaction.

22. The Cabinet Secretary answered that, over the past couple of years, the Government had taken forward a programme to improve data collection within the ethnic minority communities. He stated that that information was used actively by health boards to improve the design and delivery of their approaches. He added—

“Knowing the purpose of HEAT targets, I do not think that they lend themselves to the challenge ... which is more about ensuring that we equip services to meet the needs of people from ethnic minority communities. The HEAT targets are about driving a particular outcome in the performance of the health service on clinical interventions. I therefore do not think that a HEAT target would be the appropriate way to move forward, but I would not want that to be interpreted as our not recognising the importance of data collection and understanding the patient perspective, which we use to improve the way in which we make health services available to members of the black and ethnic minority communities.”<sup>11</sup>

*Conclusion*

23. We are concerned about the issue of evidence to show the value of EqlAs: **without evidence of EqlAs' effect, they risk being reduced to tokenism.** We plan to return to this issue during the course of 2012.

24. We remain concerned about **NHS boards' performance in demonstrating improved clinical services to ethnic minority communities.** Although NHS boards have been gathering statistical data on ethnic minority access to frontline services, there is inconsistency between NHS boards and **little evidence that such statistical data is being used as a baseline for improving, for example, patient satisfaction rates with the quality or choice of current interpreting provision or improved**

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<sup>9</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 75-6

<sup>10</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 99

<sup>11</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 103

**outcomes in clinical services**, such as diabetes, where research<sup>12</sup> has shown higher rates in some ethnic-minority communities. Therefore, **we recommend strongly that there should be increased accountability of ethnic-minority reporting by NHS boards to the Scottish Government. We believe that all NHS boards should record a valid ethnic group code on acute in-patient day-case records and out-patient appointment records in at least 75% of cases. Three NHS boards currently reach or exceed this standard<sup>13</sup>. They should also demonstrate that data gathered has been used to improve services and patient satisfaction** over that period. We note the Cabinet Secretary's view on the suitability of HEAT targets for measuring data collection and **call on the Government to identify a suitable alternative way of achieving a standard of 75% compliance** over a suitable, specified timescale. Further, **we ask that the Scottish Government make regular progress reports to us on this matter.**

25. As discussed above, research has shown higher rates of diabetes in some ethnic-minority communities. Therefore, we suggest using diabetes as a case-study example to show **how the understanding** of the condition's prevalence and its sufferers' demographic profile **changes as data gathering improves** and **how this follows through to policy decisions and clinical outcomes.**

#### *Mental health*

26. Dr Gina Netto, Lecturer, School of the Built Environment, Heriot-Watt University, said that, given the "high incidence" of mental ill health in the population at large and among minority groups, mental health emerged as a great concern.<sup>14</sup>

#### *Scottish Government*

27. The Cabinet Secretary was asked what the equality impacts were of the £6m allocated to mental wellbeing and the £16.2m allocated to mental health legislation and services—

"The money essentially supports the implementation of the Mental Health (Care and Treatment) (Scotland) Act 2003, which is based on 10 principles, including non-discrimination, equality, respect for diversity and participation. Support has also been put in place for the lesbian, gay, bisexual and transgender centre for health and wellbeing, to assist mental health interventions for individuals in the LGBT community. NHS Health Scotland has developed a mental health and race equality programme, which is focused on how to improve mental health services for individuals from different groups. A range of applications is being developed within the funding streams to support individuals from an equalities perspective."<sup>15</sup>

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<sup>12</sup> National Resource Centre for Ethnic Minority Health in collaboration with the Scottish Diabetes Group. (2004) *Diabetes in Minority Ethnic Groups in Scotland – Main Report*. NHS Health Scotland. Available at [www.healthscotland.com/uploads/documents/6234-Diabetes%20-%20full%20report.pdf](http://www.healthscotland.com/uploads/documents/6234-Diabetes%20-%20full%20report.pdf) [Accessed 23 November 2011]

<sup>13</sup> ISD Scotland. (2011) *Improving ethnic data collection for equality and diversity monitoring: April 2009-March 2011*. National Services Scotland. Available at [www.isdscotland.org/Health-Topics/Equality-and-Diversity/Publications/2011-08-30/2011-08-30-Ethnicity-Report.pdf?57986086607](http://www.isdscotland.org/Health-Topics/Equality-and-Diversity/Publications/2011-08-30/2011-08-30-Ethnicity-Report.pdf?57986086607) [Accessed 23 November 2011]

<sup>14</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 81

<sup>15</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 100

*Conclusion*

28. **We welcome the Cabinet Secretary's answer.** It is recognised that mental health is an issue in the population at large as well as in the ethnic minority groups. We believe that the outcome of the range of applications referred to by the Cabinet Secretary should be measured.

*Young carers*

29. The Draft Budget refers to the 2010 joint Government-COSLA *Carers and Young Carers Strategy* which “sets a framework for action over five years aimed at supporting carers and sustaining them in their caring role, while enabling young carers to be children first and foremost”. In 2011-12, £3m was invested in short breaks provision by the voluntary sector and £4.9m was allocated to NHS boards for carer and young carer identification and support. The Draft Budget also promises that “local government will continue to work with the Scottish Government towards maintenance of an extra 10,000 weeks of respite provision”.

*Scottish Government*

30. It was suggested to the Cabinet Secretary that it was not clear whether the budget for carers and young carers would be retained. Asked whether investment in short breaks provision by the voluntary sector and carer and young carer identification and support would continue, he stated—

“I expect that next year the budget for carers and young carers will be of the order of £8 million in total. That will be focused on supporting some of the information strategies that NHS boards develop to support carers, and it will also support the young carers festival. There will be support for carers and young carers in the black and ethnic minority communities, and there will be a focus on supporting the Scottish young carers services alliance. The short answer ... is therefore yes.”<sup>16</sup>

31. Asked whether, more specifically, local government would continue to work with the Scottish Government towards maintaining the extra 10,000 weeks of respite provision, he stated that that was “part of the dialogue” between the Government and local government in focusing on their shared priorities.<sup>17</sup>

32. The Cabinet Secretary was also asked how work to support black and ethnic minority young carers, for example, would be evaluated—

“I cannot give you a commitment on a specific evaluation process. The purpose of a spending review is to challenge how the Government spends its money and to determine the relative importance of, and what can be achieved by, pursuing expenditure in one direction rather than another. The fact that the spending review has resulted in the provision of financial support clarifies the fact that the Government, having assessed the effectiveness of that expenditure, considers it to be justified in the long term.”<sup>18</sup>

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<sup>16</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 100-1

<sup>17</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 101

<sup>18</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 101

33. He added that, if there were a specific proposal for a further evaluation, he would inform us. Pressed on the point about evaluating the reach of support for often marginalised black and ethnic-minority young carers, he responded—

“That is harder to quantify, but it is part of a process. I will not be able to give you all the details off the top of my head, but there will be legislative provision that requires us to assess the needs of young carers, whatever their background. Essentially, public authorities have a duty to determine whether they are properly fulfilling their statutory obligation. That is the mechanism: young carers from the black and minority ethnic community will not necessarily be singled out, but they will be included in an assessment of the effectiveness of public authorities in fulfilling their duty.”

#### *Conclusion*

34. We welcome the Cabinet Secretary’s responses on young carers. **We remain concerned about how the spend from the carers budget is monitored** in relation to equality groups and shall seek updates on this issue in the future.

#### *More complex learning needs*

35. Enable Scotland recently produced a report<sup>19</sup> suggesting that children who have more complex needs are being failed by the system. Barriers seem to be put up because of the lack of awareness and training in schools and perhaps even in the pre-school sector.

#### *Scottish Government*

36. The Cabinet Secretary was asked whether anything could be done to ensure that those with complex needs were not failed when money became tight. He was also asked about suggestions by colleges that courses that not giving certificates sometimes dropped off the college’s agenda and whether, in respect of courses for children and young people with complex needs for additional learning support, it would be simplest to certificate those courses rather than just getting rid of them because they are not certificated. He responded—

“We have to put the learner at the centre. That is the way forward. Why on earth should any individual miss their opportunity to progress through our education system because they happen to have more complex needs than another individual has?

“The Government’s commitment for 16 to 19-year-olds, for example, is to make sure that every person in that age group can get access to a learning or training opportunity. We have to fulfil that commitment. That is what we are working to achieve.”<sup>20</sup>

37. He affirmed that there should be no reason why the needs of individuals were not “properly and fully met” by the education system—

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<sup>19</sup> Enable Scotland. (2011) *Bridging the Training Gap – ENABLE Scotland's Teacher Education Campaign Report*. Enable Scotland. Available at [www.enable.org.uk/mediacentre/Documents/Bridging\\_the\\_Training\\_Gap\\_270411.pdf](http://www.enable.org.uk/mediacentre/Documents/Bridging_the_Training_Gap_270411.pdf) [Accessed 23 November 2011]

<sup>20</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 106

“Although money is under pressure, I am presiding over a budget that totals £28.3 billion, which is still an enormous sum of money. Within that, we should be able to meet the needs and expectations of individuals in our society.”<sup>21</sup>

#### *Conclusion*

38. We welcome the Cabinet Secretary’s stated commitment on this issue. However, **the Enable Scotland report contained some very disturbing information that seems to show that there are barriers to properly and fully meeting individuals’ needs in the education system.** Further, we are alert to the concerns that have been expressed about the impact of budget cuts on availability of courses for disabled people and vulnerable groups and we request that the Scottish Government take the issues raised into account in the context of the Draft Budget 2012-13 and report back to us.

#### *Equalities budget*

39. The Draft Budget retains a static Equalities budget of £20.3m. This is likely to be viewed by equality groups as a safeguard against easy savings being made by public bodies in spending on equality strands.

#### *Conclusion*

40. We welcome the specific retention of the Equalities budget. However, in a time of cuts to public spending, **the Equalities budget must achieve huge and demonstrable impact on diverse communities** in accordance with Scottish Government priorities – not just on direct service delivery, but also on strategic development. **It is imperative that the Government ensure outcome-focused monitoring of equality groups that it funds** in 2012-13 onwards.

41. Furthermore, **the Equalities budget should not be the only source of equality spending.** The Draft Budget and the Equality Statement consistently highlight that equality has been considered in the allocation of budgets throughout Government and the public sector. However, **there is little evidence of how equality considerations are reflected in the Draft Budget,** with no detail at all, for example, on any budget amounts allocated to addressing specific equality areas, other than the Equalities budget. Whilst we agree that **all public bodies should be themselves responsible for mainstreaming,** we are aware of the financial pressures that they face and the associated **potential consequences for equalities issues.** We believe, therefore, that it would be **reassuring for the Draft Budget to demonstrate how it reflects equality considerations with firm examples in each portfolio section.** Further, the Government should ensure, nationally and locally, **more stringent monitoring and reporting processes** that substantiate progress towards addressing inequality.

### **Finance, employment and sustainable growth**

42. To strengthen economic growth and boost jobs growth, including social enterprise and business support, the Draft Budget allocates £421.2m and £24.5m to Enterprise, Energy and Tourism and to the Third Sector respectively.

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<sup>21</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 106

*Social enterprise*

43. The Equality Statement highlights that “the third sector’s contribution to the Scottish economy by specifically encouraging the social enterprise model is recognized in continued spending support”. However, current funding, such as the £4 million Enterprise Growth Fund, is geared towards existing social enterprises that already have a high level of trading income. This excludes many ethnic minority and other equality groups that do not have the capacity – the skills and knowledge of social enterprise – to reach the required level of trading income to be eligible to apply. There is a concern that equality groups will continue to fall behind in social enterprise as current funding focus is on existing social enterprises.

*Scottish Government*

44. Asked about funding for start-up social enterprises, and particularly for ethnic minority and disability-led groups, to help develop their capacity to trade, the Cabinet Secretary stated that black and ethnic-minority community organisations were now benefiting from Just Enterprise programme support. He added—

“The channels of advice and support are there. I ... reaffirm the Government’s determination to support the development of the social enterprise sector, which contains some great gems of activity within our society.”<sup>22</sup>

45. Regarding specific funds for ethnic-minority or disability groups, he stated—

“The funding streams that they can access are not exclusively available to groups from ethnic minority backgrounds, but we have enough focus within the programme to ensure that we can provide relevant support to organisations that require it.”

46. He went on to state that he would be reluctant to have particular funds available for social enterprise development in a particular community—

“I would much rather support the community in general and have specialist support available for the development of social enterprises, which may have a character around the ethnic minority organisations, and for those organisations to be supported in making applications and seeking support through that channel. An opportunity exists for that to happen.”<sup>23</sup>

47. He explained that the Government supported organisations with a focus on advocating for and building capacity in the ethnic and minority communities and that if, from that work, there was an aspiration to, for example, form a social enterprise, there were other forms of “more general advice on forming a social enterprise”, available to any organisation.<sup>24</sup>

*Conclusion*

**48. We remain concerned about the potential for ethnic-minority groups to fall further behind in social enterprise development as current funding seems geared towards more established social enterprises. The Just Enterprise programme gives capacity-building support to ethnic-minority groups but current funding criteria**

<sup>22</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 98

<sup>23</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 98-9

<sup>24</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 99

**also need to be accessible to fledging social enterprises.** Most social enterprises led by ethnic minority and other equality groups fall into this bracket.

*Impact of job losses on equality groups*

49. The Equality Statement states that 38% of women account for 64% of the public-sector workforce and are more likely to have part-time and lower-paid jobs. Ethnic-minority and disability groups, also more represented in the public sector and, in particular, the third sector, are also more likely to have low-paid jobs.

50. Patricia Armstrong, Chief Executive, Association of Chief Officers of Scottish Voluntary Organisations, commented on the expected disproportionate impact on equalities groups of job losses and, in relation to no-compulsory-redundancy policies in the NHS and local authorities, stated—

“... we must be careful that the cuts and losses do not get passed on disproportionately to the third sector.”<sup>25</sup>

51. The Scottish Women’s Budget Group (“SWBG”) also highlighted concerns about the impact of job losses and pay freeze in the public sector.<sup>26</sup>

52. The Scottish Disability Equality Forum stated—

“... the majority of Third Sector organisations do not provide what would be regarded as commercial services, but rather provide a mix of humanitarian assistance and preventative support which has no immediate commercial value and which must remain dependent upon available funding.

“We suggest that to sustain available funding for these organisations, those who may have potential for social enterprise should be more widely encouraged to focus on financial sustainability as a long-term goal, with better financial assistance and more accessible support.”<sup>27</sup>

*Scottish Government*

53. The Cabinet Secretary stated the issue has also been raised with him—

“... by people in the third sector, where there is a concern that one implication of our stance on no compulsory redundancies might be simply to shift the problem into the third sector. I am acutely aware of that point. However, that view does not take into account the fact—on which I have been clear with the Parliament on many occasions—that there will be a loss of public sector employment in the coming period. That is absolutely unavoidable, given the challenges that we face, but the Government wants to manage the process in an orderly fashion and without the threat of compulsory redundancies hanging over individuals.”<sup>28</sup>

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<sup>25</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 73

<sup>26</sup> Scottish Women’s Budget Group. Written submission to the Finance Committee, page 6

<sup>27</sup> Scottish Disability Equality Forum. Written submission, page 3

<sup>28</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 97

54. He maintained that there was consequently a way to “work constructively with the third sector” to ensure that its operations were sustained in “this difficult financial climate”.<sup>29</sup> He explained—

“The third sector budget has, in essence, been protected in the coming period. The Government provides a range of funding streams to third sector organisations directly and many are provided by local authorities. I intend to work closely with the third sector to ensure that what we might characterise as unintended consequences for the third sector of the commitment on no compulsory redundancies do not occur.”<sup>30</sup>

#### *Conclusion*

**55. We recommend that the Scottish Government ensure a mechanism for monitoring the impact of job reductions and no-compulsory redundancy policies on equality groups in the third sector** and report the outcome of that monitoring to us. We also recommend that the impact of these policies on equality groups in the public sector is assessed.

#### **Education and Lifelong Learning**

56. The Equality Statement highlights that the Employability, Skills and Lifelong Learning budget already delivers 25,000 Modern Apprenticeship opportunities. However, it also states that “the equality impact assessment undertaken by Skills Development Scotland on its delivery of the National Training Programme reflects the need to ensure that every equality group is better represented across the opportunities provided”. This raises concern about the **equalities composition of the 25,000 Modern Apprenticeships** (and future apprenticeships).

57. Jatin Haria, Executive Director, Coalition for Racial Equality and Rights, stated, in relation to the 25,000 Modern Apprenticeships—

“...we have had trouble finding out whether any monitoring is being done, let alone any positive action being taken. Without monitoring, we will never know whether any young black people are on the scheme. We know that the age profile of the black and ethnic minority community is much younger, so that community probably makes up closer to 7 or 8 per cent of young people, rather than 3 per cent... We know that more black and ethnic minority people go on to further and higher education and do not leave school at 16, so a programme that targets 16-year-olds for apprenticeships might not target the right thing. That is again where one size does not fit all. Perhaps a graduate apprenticeship programme should be considered, and maybe even one that is particularly for black and ethnic minority young people, as a positive action measure.”<sup>31</sup>

58. The SWBG also raised an issue relating to Modern Apprenticeships—

“... current programming and resource allocation decisions, according to multiple studies, reinforce gender-based occupational choice, segregation in training and labour markets, and gender-based disadvantages including the pay gap and

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<sup>29</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 97

<sup>30</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 97

<sup>31</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 74

lifetime earnings. Within the context of the Government's Economic Strategy, it is imperative that measures to promote economic growth do not exacerbate existing inequalities and that public spending is directed to mitigate the worst impacts of the recession and particularly the damage to women's employment resulting from redundancy, pay freezes, spending cuts and service withdrawal in the public sector."<sup>32</sup>

#### *Scottish Government*

59. Asked about the suggestion for a scheme for postgraduate entry into modern apprenticeships for people from black and ethnic minority groups, the Cabinet Secretary referred to the Scottish Government's Making Training Work Better review due to report by the end of 2011. He stated that the review would "consider issues to do with graduate-level modern apprenticeships"<sup>33</sup> and committed to notifying the Committee of the review's outcome.

#### *Conclusion*

60. **We request that the Scottish Government take account specifically of the race and gender issues raised with us in relation to Modern Apprenticeships in its Making Training Work Better review. We await the review report with interest and plan to use it as a starting point for further dialogue with the Government on this matter.**

61. We believe that the Scottish Government should take positive action – i.e. **steps to encourage applications from people from under-represented groups – in relation to the Modern Apprenticeships scheme.** Doing this could also have an impact on improving equalities representation in the construction industry. Examples of possible positive action in this context include targeted promotion, including by careers services, of Modern Apprenticeships (including construction-related jobs) to ethnic-minority communities, developing mentoring and other support schemes for retention of ethnic-minority Modern Apprentices, and improving statistical data-gathering to ensure solid benchmarking of the impact of these steps.

62. **We ask the Scottish Government to consider diversity pilots in partnership with unions and employers** to ensure that apprenticeships offered are of **high quality, open to all and lead on to a job and career progression.** Mentoring for young ethnic-minority apprentices in the workplace could also play an important role.

63. **We remain concerned about whether people from all characteristics have an equal opportunity to apply for Modern Apprenticeships. We call on the Scottish Government to ensure detailed equality monitoring is collected, analysed and acted upon,** not just for those applying for and participating in Modern Apprenticeship programmes but also for those completing the training. **The potential for perpetuating or worsening the concentration of any equalities group in – or its exclusion from – particular occupations should also be looked at.**

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<sup>32</sup> Scottish Women's Budget Group. Written submission to the Finance Committee, page 2

<sup>33</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 96-7

## Justice

64. The Draft Budget allocates £3 million to tackling sectarianism in 2012-13 but it is not clear whether any of this spend extends beyond football matches to wider societal issues of religious hatred and hate crime towards other groups such as Muslim and Jewish people. We sought clarification on how the proposed new provisions on sectarianism would be stronger than existing criminal law – for example, breach of the peace and statutory aggravations on grounds of religious or racial hatred under the Public Order Act 1986 and the Crime and Disorder Act 1986. More generally, anti-religious discriminatory work could be included in the proposed programme to prevent all kinds of religious discrimination.

65. Dr Salah Beltagui, Convener, Muslim Council of Scotland argued that the Draft Budget said “little” about religion—

“It is mentioned only as part of the Offensive Behaviour at Football and Threatening Communications (Scotland) Bill, which is negative. We must do positive things. We must work on how to make a better society by dialogue. Some work is being done on that by all religions, not just one ... Concentrating on sectarianism alone reminds me of the way in which the terrorism legislation of the past 10 years concentrated on terrorists coming from certain areas or a certain religion.”<sup>34</sup>

### *Scottish Government*

66. Asked whether the £3 million allocation was too narrowly focused in how it is to be spent and needed to be extended to cover discrimination and hate crimes relating to other religions, the Cabinet Secretary stated—

“The provisions in the budget document cover a range of elements. For example, in 2011-12, the Government has given direct financial support to a number of organisations that act to counter sectarianism in different ways ... and to organisations that are closer to faith communities ... Of course, the Government provides other support to interfaith communities and other such organisations, but I am not clear from the information in front of me whether it is supported in this particular budget line or in the wider equalities budget lines. The point is that the Government undertakes work in this area through a number of channels; one of those is the anti-sectarianism channel, but the Government will also take forward a number of other equalities measures.”<sup>35</sup>

67. He added that the Draft Budget did not summarise “absolutely everything” being done on equalities—

“Sectarianism issues are very high profile ... but the Government routinely undertakes other work to foster good relationships between different communities in our society and Scotland’s faith communities. We will do all we can to encourage that work and to try to give it greater prominence.”<sup>36</sup>

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<sup>34</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 68

<sup>35</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 107

<sup>36</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 108

### *Conclusion*

68. We welcome the Cabinet Secretary's comments about the Scottish Government's work towards fostering good relationships between different communities and faith communities. However, **we believe that the importance of tackling religious hate crimes and hatred extends well beyond current perceptions of sectarianism. We propose that the Government look at enhancing the profile of all aspects of work on religious hate crimes in particular to ensure that this work is not eclipsed by the debate on sectarianism.**

### **Infrastructure and capital investment**

69. The Equality Statement states that the reduction of the Supporting Economic Growth/Housing Supply Budget from £268.5m to £150m average over the spending review period is likely to have some negative equality impacts. We were particularly interested in what contingency action plans the Scottish Government had to address these impacts, particularly given that Registered Social Landlords<sup>37</sup> ("RSLs") have low tenancy rates amongst ethnic minorities.

70. Dr Netto of Heriot-Watt University was "considerably concerned about homelessness among minority ethnic communities". She cited research from 2004 showing that the level of recorded homelessness was considerably higher in minority ethnic communities—

"... we are not optimistic that things have changed since then. I have looked closely at the housing and regeneration part of the budget and I am disappointed to see that there is no recognition of that issue—it has not been picked up as an issue of equality for minority ethnic communities. The Scottish Housing Regulator has a key role to play, as it can monitor the performance of housing associations in terms of the composition of their tenants, but the performance of all housing associations in fulfilling their race equality duty is not published at the moment."

### *Scottish Government*

71. The Cabinet Secretary was asked whether there was any way to secure appropriate and apportioned funding for black and ethnic-minority groups and disability groups, who might need specific types of housing, for example for larger families or for extra rooms for carers. He replied that there was no "ring-fenced fund" to meet those needs—

"Local authorities clearly have a duty to house individuals appropriately when they present as homeless. In that circumstance, they must find accommodation that is appropriate to the family's needs ... I can remember a case in which a large family presented itself as homeless and the local authority undertook extensive refurbishment and redesign of some of its existing stock to accommodate that family properly. I know also that local authorities and registered social landlords take great care to try to design approaches to housing

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<sup>37</sup> Registered Social Landlords are independent housing organisations registered with the Scottish Housing Regulator under the Housing (Scotland) Act 2001.

that meet the needs of individuals with particular disabilities. It is an on-going priority for that to be reflected in the work of local authorities.”<sup>38</sup>

72. Pressed further on this point in the context of some people and families still living in overcrowded conditions, the Cabinet Secretary added that local authorities and registered social landlords took “great care” to ensure that they had a “diversity of housing provision in place”, reflected in the available provision, to meet the needs of individuals—

“That can be achieved without ring fencing for particular purposes. It is difficult for local authorities to plan effectively on a prescriptive basis. They can do their level best to assess the character of housing demand in the years to come with the assistance of population projections. However, it is difficult to be definitive in that respect.”<sup>39</sup>

73. The Cabinet Secretary was also asked to comment on the removal of previously fitted aids and adaptations when a property became vacant, rather than being kept for a future tenant needing them, thereby twice incurring spend by the RSL. In response, he spoke of the challenge of meeting housing requirements—

“It is almost impossible to require RSLs to predict, absolutely, what the housing requirement will be ... Judgments can be made, but it is a big ask to expect RSLs to have the requisite number of specially adapted properties available at any given time. Reluctance to adapt properties to meet individuals’ particular needs is a different question altogether. By its nature, that is an issue of responsiveness. RSLs must be in a fit state to respond, and to do so timeously to meet individuals’ needs.”<sup>40</sup>

### *Conclusion*

74. We recognise that it is difficult for RSLs to predict the future but we know that **the population is ageing and that in future more people will need assistance to live independently**. We believe that **RSLs should exercise maximum discretion to ensure optimum benefit from properties fitted with aids and adaptations**.

75. **We remain concerned about the “likely negative equality impacts”, identified by the Scottish Government, of the reduction of the Supporting Economic Growth/Housing Supply Budget.**

76. We plan to request evidence from the Housing Regulator on **how RSLs are assessed, monitored and regulated in relation to equalities** and **whether the equalities performance standards in the regulatory regime are robust and effective** in measuring compliance and improvement, including what actions or penalties are implemented on identifying poor performance.

### **Local government**

77. The Draft Budget allocates £11.5 billion in 2012-13 to local government, rising to £11.7 billion in 2014-15. However, despite clear outcomes for equalities in single

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<sup>38</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 110-1

<sup>39</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 111

<sup>40</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 111-2

outcome agreements (SOAs), there are no reporting outcomes for local authorities on equalities progress in the National Performance Framework, meaning that there is no accountability to the Government through SOAs/ community planning partnerships (“CPPs”).

78. In the Concordat, there is reference to tackling “significant inequalities in Scottish Society” but there is a lack of definition of “inequalities” relating to specific equality strands. Further, annual reporting of specific equality targets from local to central government is omitted from the National Indicators and Targets.

79. Dr Claire Monaghan, Portfolio Holder for Justice, Equalities and Human Rights, Society of Local Authority Chief Executives and Senior Managers (“SOLACE”), was struck that many items in the section on local government in the equality statement were delivered through CPPs. She suggested that building equality outcomes into the community planning framework and factoring in the role of best value was part of how CPPs could be made aware of their responsibilities “beyond the talk of early intervention and prevention”.<sup>41</sup>

80. Antony Clark, Assistant Director, Audit Scotland, supported this point—

“If community planning partnerships and single outcome agreements are the way forward as part of a main strand of driving forward public sector and public service reform, it would seem important to have some clarity about how equalities are built into the planning apparatus and the performance expectations for SOAs. I accept ... that the governance and accountability framework for CPPs is a bit uncertain in some areas but, nonetheless, they are definitely a vehicle for moving forward.”<sup>42</sup>

#### *Scottish Government*

81. The Cabinet Secretary was asked to shed light on the relationship between SOAs and CPPs in relation to reporting mechanisms. He responded that one of the themes of the Scottish Government’s public sector reform agenda was “further development of the performance monitoring culture”<sup>43</sup> to ensure that a lot of data was not only collected but also used to drive improvements in performance—

“That will be a feature of what we look at as we develop the reporting and monitoring structures that are implicit in single outcome agreements. We are working with local authorities and the Society of Local Authority Chief Executives and Senior Managers on that.”<sup>44</sup>

82. He added that the Government’s objective was to ensure that CPPs were truly representative of all the different public sector players at local level—

“That is what they are there for—they are there to bring together the thinking, the perspective and the planning of different public sector players in local communities, in partnership with the third sector. That process gives rise to the single outcome agreement, which essentially gathers together all the aspirations

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<sup>41</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 79

<sup>42</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 79

<sup>43</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 114-5

<sup>44</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 114-5

within an area. It should be the forum in which we can judge the effectiveness of performance on a number of different issues.”<sup>45</sup>

### Conclusion

83. We call on the Government to look at Audit Scotland’s role in gathering evidence on public bodies’ equalities performance and exploring ways of ensuring demonstrated improvements in this area. This may include looking at putting extra pressure on public bodies that perform poorly in respect of equalities. As a starting point, we draw attention to the Accounts Commission’s report of November 2008, *The impact of the race equality duty on council services*<sup>46</sup>, which examined the impact of the race equality duty under the Race Relations (Amendment) Act 2000 on the 32 local authorities and concluded that local authorities needed to build a better understanding of the needs of their minority ethnic communities; mainstream their approach to race equality, and give more priority to race equality in delivering services. The Audit Commission concluded with the following key findings—

- despite considerable corporate activity and initiatives, councils have limited evidence of the impact of the race equality duty on service delivery;
- minority ethnic communities say there is scope for councils to make more impact in applying the race equality duty;
- councils find the race equality duty challenging and have so far focused on compliance, policies and processes;
- councils do not consistently prioritise and report on race equality, or provide sufficient training for councillors and staff;
- councils lack full and robust information about minority ethnic communities and their needs;
- councils can build on their achievements to date and make more impact through best value processes and with support from national organisations;
- anecdotal evidence, and evidence provided by the Audit Commission and COSLA during the scrutiny process would strongly suggest that local authorities have not improved their race equality performance since the publication of the report in 2008.

84. Incorporating equality measurements in national indicators and targets within SOAs will help accountability and reporting from local government to central government. **We remain concerned that local authorities’ performance in relation to equalities should improve. It remains to be demonstrated how much impact the public duties under the Equality Act 2010 will have.** In addition to the legal requirements under the Equality Act 2010, therefore, **we contend that the Scottish Government needs to ensure stronger regulation, accountability and equalities reporting**

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<sup>45</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 114-5

<sup>46</sup> Accounts Commission. (2008) *The impact of the race equality duty on council services*. Audit Scotland. Available at [www.audit-scotland.gov.uk/docs/local/2008/nr\\_081113\\_equalities.pdf](http://www.audit-scotland.gov.uk/docs/local/2008/nr_081113_equalities.pdf) [Accessed 23 November 2011]

**from local to central government by incorporating equality measurements in national indicators and targets within SOAs.**

85. We are aware that this may prove difficult owing to the complex relationship between SOAs and CPPs. If so, the Scottish Government should explore other direct reporting mechanisms on equalities performance to ensure better accountability from local government to both central government and to communities. For example, in England, the Journey to Race Equality is a systematic approach for public bodies to improve outcomes for ethnic minority communities involving ‘self assessment’. In Scotland, the NHS’s Checking for Change toolkit is similar. Either example is transferable across equality strands and/or sectors. **The Scottish Government should establish one, universal self-assessment tool to be used by the whole public sector. A national report should then be compiled and published each year.**

**Welfare Reform Bill in the UK Parliament**

86. There has been a lot of speculation about the implications of proposals in the Welfare Reform Bill currently before the UK Parliament, in particular that they may have a negative equalities impact in Scotland. Examples of possible impacts are the effect on single parents (often women) of housing-benefit changes and on disabled people of the replacement of Disability Living Allowance with Personal Independence Payment. We explored this issue with the Cabinet Secretary.

*Scottish Government*

87. The Cabinet Secretary was asked whether anything could be factored into budgetary considerations to offset the impact of any midstream changes—

“This takes us into quite difficult territory. I would be exaggerating if I were to say that our dialogue and discussions with the UK Government on the Welfare Reform Bill’s precise implications and on the willingness to understand that specific implications might have a major impact on the provision of public services in Scotland were at an advanced or indeed the development stage. We are profoundly concerned about where we are. We might agree with some of the UK Government’s welfare reform agenda, but we do not agree with an awful lot of it and it will have implications for devolved public services and the financial commitments that we will be able to make. As the UK Government does not seem willing to understand that important point, I certainly fear that the burden on devolved public services in Scotland will grow as a consequence of its proposals.”<sup>47</sup>

88. The Cabinet Secretary was asked whether there was anything that could be done to reassure those with specific needs – for example, people with disabilities or dementia or in need of additional support – living in properties deemed to be larger than required that no action would be taken against them, that they would not be penalised and that they would be able to stay in their homes. He replied—

“Although nothing from the Scottish Government will affect those individuals, the UK Government is pursuing an agenda that might have negative consequences

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<sup>47</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 116

for them. It is difficult for me to answer that question and provide that reassurance when it is the UK Government that is causing such difficulties and potential distress.”<sup>48</sup>

89. Asked whether representations could be made for an exemption for those with identified needs and additional requirements – that might, for example, include needing part-time carers to stop over, the Cabinet Secretary stated—

“The Scottish Government is certainly making very strong representations to the UK Government on the implications of the Welfare Reform Bill ... The Deputy First Minister met the Secretary of State for Work and Pensions in September; I, too, have met him, and both of us have made these points firmly to the UK Government.”<sup>49</sup>

### *Conclusion*

90. **We note the Scottish Government’s position on the Welfare Reform Bill** and echo the position agreed, with cross-party support, by the Parliament, in particular **regretting the impact on some of the most vulnerable individuals and families in society and on the local authority and third-sector organisations committed to supporting vulnerable people**<sup>50</sup>. We await further developments with **profound concern**.<sup>51</sup>

## REVIEW OF THE FORMER EQUAL OPPORTUNITIES COMMITTEE'S RECOMMENDATIONS ON THE DRAFT BUDGET 2011-12

### **Background**

91. The recommendations made by the former Equal Opportunities Committee in the 2011-12 scrutiny process included the following comments—

- a lack of detail, both data and required analysis, to support the equalities tone, in the relevant budget documents;
- further evidence needed by way of actual examples of how a commitment to equality was integral to the Government’s economic strategy and how it had thus informed and shaped the spending allocations detailed in the Draft Budget;
- lack of clarity about the extent to which the Draft Budget, and the policy decisions in it, was subject to equality impact assessment;
- much work yet to be done to transform the budget process to ensure resource allocation decisions were informed and, if required, altered by equality considerations;

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<sup>48</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 116

<sup>49</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 116

<sup>50</sup> S4M-1008 Nicola Sturgeon: Welfare Reform

<sup>51</sup> Annabel Goldie dissented from this paragraph and stated— “I note the Scottish Government’s position on the Welfare Reform Bill. I dissent from the remainder of the conclusion. The cross-party support referred to does not include the Conservatives or the Liberal Democrats. I support the Welfare Reform Bill.”

- examples of proposals put forward but not pursued because they raised equalities issues were requested;
- significant concerns about lack of equalities progress by public bodies;
- concerns about local authorities' progress on equalities, including EqlAs – COSLA and the Scottish Government to monitor progress;
- a more effective approach to equality mainstreaming across all public sector bodies needed;
- all public bodies to prioritise, over this planning and budget phase, a process of demonstrating progress on implementing measures designed to improve on the approach to embedding equalities in their work, including through EqlAs;
- very little detail in the Draft Budget document to indicate what measures/resources were being targeted at mitigating the impact on women as low-paid workers in the public sector beyond the £21,000 per annum threshold. The Scottish Government urged to undertake a robust equality impact analysis of the measure and to publish the results of that analysis;
- similar lack of detail in the Draft Budget as to how measures intended to enhance the human capital of the workforce through investment in skills and education would tackle gender-based occupational segregation and thus improve women's positions within the labour market. The Scottish Government was requested to provide detail of resources allocated to programmes focused on tackling occupational segregation and evidence of how the impact of the public sector pay freeze would be monitored with specific reference to the gender pay gap.

## Mainstreaming

92.A priority highlighted in the Equality budget is to “take forward the development and implementation of the Public Sector equality duties which will provide a robust framework for the delivery and mainstreaming of equality”. However, **it is far from clear what ‘mainstreaming’ actually means and how any achievements can be measured**. We therefore asked about Government providing guidance, support and leadership to the whole public sector with a view to ensuring that ‘mainstreaming’ is a measurable and understood process.

93.Dr Monaghan of SOLACE stated that there was a lot of anecdotal evidence about developing and embedding mainstreaming and how reporting would demonstrate that—

“However, the journey to ensure that every officer in a public sector body thinks equalities first and completely understands what that means in practice is a long one.”<sup>52</sup>

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<sup>52</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 57

94. Rami Ousta, Chief Executive Officer, Black and Ethnic Minority Infrastructure in Scotland (“BEMIS”) also commented on mainstreaming—

“We hear a lot about mainstreaming but, even in local authorities, there is much misunderstanding about what it means. We still come across local authorities that think that mainstreaming is about closing local race equality groups and taking on the role themselves to fill the gap.”<sup>53</sup>

#### *Scottish Government*

95. The Cabinet Secretary was asked what the Scottish Government meant by ‘mainstreaming’ and whether there would be support for and monitoring of public sector mainstreaming-equality processes to enable a measurement for progress and ensure that high-quality EqlAs were carried out as part of decision-making processes. He stated that mainstreaming equality considerations were “best dealt with by reference to the duties” placed on public bodies—

“That is the best way of ensuring that we mainstream equality. It should be made part and parcel of the on-going priorities of public sector players that they fulfil their statutory obligations and duties in relation to equality considerations and that, as a consequence, they can properly discharge their equalities responsibilities.”<sup>54</sup>

96. He went on to state—

“... the Government tends to work closely with the Equality and Human Rights Commission, the advice of which we would take on the provision of guidance on mainstreaming. We are working with the EHRC and the Improvement Service on designing a strengthened local outcomes framework that would enable us to make judgments on many of these issues.”<sup>55</sup>

#### *Conclusion*

**97. We remain concerned that mainstreaming is not clearly defined nor is it clear on how it is achieved or measured.** This is particularly important as mainstreaming will likely become a public sector duty under the Equality Act 2010.

**98. We are also concerned about the potential for public bodies to cut funding to equality groups on the supposed justification of mainstreaming that is actually far from being achieved** – notwithstanding the debate around definition. This is particularly concerning as cutting funding to community organisations in favour of delivering services directly may, at a time of public spending cuts, have greater appeal to public bodies. **As a safeguard, the Scottish Government should ensure that such public bodies’ decisions are thoroughly impact assessed.** For example, if a local authority cut the funding of an ethnic minority group by citing in the EqlA that the users of that particular project are able to use “mainstream” services, there should after 6 months be a follow-up to that decision, with independent assessment, to assess whether the users of that ethnic minority group did in fact use the identified “mainstream” service and whether the project satisfactorily met their needs.

<sup>53</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 63

<sup>54</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 115

<sup>55</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 115

99. **We urge the Scottish Government to note that mainstreaming does not ultimately rule out any need to retain specific equalities policy work and services** – individual needs with regard to where and how people access services, such as those provided by specialist groups, are all deciding factors. **Achieving fully mainstreamed services – involving truly eliminating discriminatory practice and integrating equalities at the heart of all decision-making in public and third-sector organisations’ systems and processes – is a process not an event and may take many years.**

100. **We therefore ask the Scottish Government to do more to ensure guidance, support and monitoring of public-sector “mainstreaming”** equality processes and outcomes to ensure a measurement for progress and high-quality equality impact assessments in decision-making processes.

101. **We look forward to receiving from the Scottish Government the strengthened local outcomes framework that will help to strengthen the approach to “mainstreaming”**, referred to in evidence by the Cabinet Secretary.

102. **We also plan to seek evidence from a range of public bodies during the course of the year to give evidence on what spend they have allocated to addressing the needs of equality groups.** While there is insufficient detail in the Draft Budget to assess the amount of equalities spend in many areas, continuous scrutiny and evidence-gathering during the year should reveal this detail.

### Statistical information

103. The former Equal Opportunities Committee<sup>56</sup>, the EBAG review<sup>57</sup> and the Equalities Statement<sup>58</sup> saw a clear need to improve statistical data-gathering on equalities to set a baseline for measuring progress.

104. Dr Netto of Heriot-Watt University argued that there was a “danger of underestimating the amount of data” collected and that “what can be done” with these statistics should be the focus.<sup>59</sup>

105. Jatin Haria of the Coalition for Racial Equality and Rights agreed—

“Although it is useful to have more data, that should not be an excuse—there is plenty of data available. On employment, the 1 per cent figure that was

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<sup>56</sup> Scottish Parliament Finance Committee. 2nd Report, 2011 (Session 3). *Report on Scotland's Spending Plans and Draft Budget 2011-12* (SP Paper 687), Volume 2: Reports from other Committees and the Scottish Commission for Public Audit, Annexe F – Report from the Equal Opportunities Committee, paragraph 69. Available at:

<http://archive.scottish.parliament.uk/s3/committees/finance/reports-11/fir11-02-vol2-01.htm#ANNF>  
[Accessed 23 November 2011]

<sup>57</sup> Equality and Budget Advisory Group. (2010) *Equality Analysis in the Budget and Spending Review 2011 Onwards – A Report by the Equality and Budget Advisory Group (EBAG)*. Scottish Government. Available at [www.scotland.gov.uk/Publications/2010/11/16135842/0](http://www.scotland.gov.uk/Publications/2010/11/16135842/0)

[Accessed 23 November 2011]

<sup>58</sup> Scottish Government. (2000) *Equality Statement – Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: [www.scotland.gov.uk/Resource/Doc/358418/0121145.pdf](http://www.scotland.gov.uk/Resource/Doc/358418/0121145.pdf) [Accessed 23 November 2011].

<sup>59</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 59

mentioned earlier is, generally speaking, true across the board in Scotland ... Data on employment is much easier to collect, and we have much more of it. If we still cannot do anything on employment, it will be much harder to do things on service delivery and service provision, where there is not so much data available.”<sup>60</sup>

106. He went on to call for “some sort of target”, stating—

“We need to ask where we want to go with all this, and how long it should take. I am not talking about a six-month or one-year plan: we should have a five-year or 10-year plan. We could double the 1 per cent figure, although 2 per cent is still very small.”<sup>61</sup>

107. Whilst he allowed that some may favour being more ambitious, Jatin Haria said that he would be happy to see a target of 2% for ethnic minority employment over the next 5 years, with public bodies taking steps involving positive action to achieve it.<sup>62</sup> He added, however—

“We had the good times throughout the 1990s, but things did not really change. Now people are saying, “Well, there’s a recession, so we can’t really do anything.” I would buy into that if we had made some progress in the 1990s.”<sup>63</sup>

#### *Scottish Government*

108. The Cabinet Secretary recognised that the question of improving data had been recurrent over the last 4 years—

“Some of that is difficult. Getting better data about some of the ethnic and minority issues would mean changing many of our data collection practices that are based on the collection of sample data. It would not quite mean moving to the degree of census data, but we would be getting much more into such quantitative analysis than we are ordinarily able to do.”<sup>64</sup>

109. He added that there would “still be weaknesses in the data” and invited the Committee to reflect back to the Government ways to enhance the process—

“I would be more than happy to take it forward. That could be done in a number of ways. It could be done through a committee report or in a workshop session at which we discuss the issues with my officials outside the glare of formal scrutiny and kick around some of the questions. I am open to that possibility.”<sup>65</sup>

#### *Conclusion*

**110. We recommend that the Scottish Government continue to improve statistical data collection on equality groups, publish its analysis and use the data to enhance service provision, improve diversity of workforces and inform future budget decisions.**

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<sup>60</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 66-7

<sup>61</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 67

<sup>62</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 67

<sup>63</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 4 October 2011, Col 66-7

<sup>64</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 119

<sup>65</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 119

111. Notwithstanding existing problems with data collection, action should be taken on the basis of data currently gathered. For example, **the current ethnic-minority representation of 1% of the public-sector workforce is far too low. This compares with 2.75% of the economically active. We recommend that the Government explore an ethnic-minority workforce target for the public sector for the next 5 years.**

112. **We welcome the Cabinet Secretary’s suggestion of collaborating with us** on developing ways in which statistical data-gathering can be improved and look forward to taking this further during the coming year.

113. **We also recommend that the Government take a lead role through introducing equalities-reporting processes for the whole public sector.** For example, the Northern Ireland Equality Commission has developed a mandatory annual progress report form that it disseminates to all public bodies to capture areas such as data collection and analysis, community engagement, and EqlAs.

### **Equality impact assessments**

114. The former Equal Opportunities Committee’s 2011-12 draft budget report highlighted that witnesses had raised concern about the general quality of EqlAs and the process involved in carrying them out. The evidence presented indicated that EqlAs were often conducted after the event as a tick-box exercise rather than as an intrinsic part of the planning and decision-making process. We pursued this concern in the scrutiny of this year’s budget, exploring particularly how EqlAs could be improved to ensure that equalities were truly considered in all decision-making processes, including the setting of Government and public-sector budgets.

115. The Equalities Statement on the Draft Budget 2011-12 states—

“We recognize that the analysis and assessment undertaken is limited by the lack of available data, particularly with regard to some equality groups. Work has continued on improving the availability of equalities data, and to developing the draft Scottish Equalities Evidence and Statistics Plan.”<sup>66</sup>

#### *Scottish Government*

116. The Cabinet Secretary stressed that the process of constructing equality impact assessments was “an active part” of the budget process—

“I saw the formulation of the equality impact assessment several times as the budget was formulated. The final equality impact assessment can be done only on the final proposition but, as the document emerged, my colleagues in portfolios worked on the equalities dimension and I looked at it strategically ... to determine whether we were satisfying our obligations. I assure the committee that that is an active part of the process. Ministers assessed the issues as decisions were taken, and the final document was signed off.”<sup>67</sup>

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<sup>66</sup> Scottish Government. (2000) *Equality Statement – Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: [www.scotland.gov.uk/Resource/Doc/358418/0121145.pdf](http://www.scotland.gov.uk/Resource/Doc/358418/0121145.pdf) [Accessed 23 November 2011].

<sup>67</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 117

117. He described the equality statement as a “live document” to be used alongside consideration of the Draft Budget, stating that it would be revisited<sup>68</sup> to ensure that it represented what was relevant—

“I intend for the first time to update the statement in the light of the budget scrutiny and changes to the budget that might arise as a result. As the committee will appreciate, that is work in progress. I am committed to improving further our approach to budget setting and equality analysis.”<sup>69</sup>

#### Conclusion

118. **We remain uncomfortable about the quality and frequency of EqIAs**, including in relation to the Draft Budget 2012-13. For example, notwithstanding the Equalities Statement and the process underpinning it, the Cabinet Secretary conceded that the Scottish Government had not, for the construction sector, assessed the equalities issues of the £200m resource-to-capital transfer proposal.

119. Therefore, we plan to undertake, during the year, **a sample testing of Scottish Government EqIAs to assess their accessibility, quality, content and accuracy**. This is very important as the Government has recognised in the Equality Statement that proper data for some equality groups is lacking. Therefore, **we shall look at assessing gaps between data and budget decision** and at what action the Government has taken or plans to take in order to address any such gaps in this or next year’s budget.

120. Further, we shall inquire into the overall effectiveness of the Government’s equality consideration processes. This will include whether and how EqIA processes prompt equalities impact assessors to identify courses of mitigating action when they identify a disproportionate impact on protected groups of a policy that cannot be altered. We also note the Equality and Human Rights Commission’s recent report<sup>70</sup> recognising improvements in Scottish Government EqIA processes but also highlighting that much, necessary improvement remains, such as on formal recording of decisions.

121. We shall also pursue the request for **examples of proposals not pursued because they raised equalities issues**, made by the former Equal Opportunities Committee<sup>71</sup>.

122. This work will help inform our scrutiny of the 2013-14 Draft Budget.

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<sup>68</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 117

<sup>69</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 93

<sup>70</sup> Equality and Human Rights Commission Scotland. (2011) *Better Policy, Better Lives: Section 31 Assessment into Scottish Ministers’ Progress in Meeting the Public Sector Equality Duties*. Equality and Human Rights Commission. Available at [www.equalityhumanrights.com/scotland/research-in-scotland/better-policy-better-lives-section-31-assessment/](http://www.equalityhumanrights.com/scotland/research-in-scotland/better-policy-better-lives-section-31-assessment/) [Accessed 23 November 2011]

<sup>71</sup> Scottish Parliament Finance Committee. 2nd Report, 2011 (Session 3). *Report on Scotland’s Spending Plans and Draft Budget 2011-12* (SP Paper 687), Volume 2: Reports from other Committees and the Scottish Commission for Public Audit, Annexe F – Report from the Equal Opportunities Committee, paragraph 69. Available at:

<http://archive.scottish.parliament.uk/s3/committees/finance/reports-11/fir11-02-vol2-01.htm#ANNF> [Accessed 23 November 2011]

## One year on: findings

123. Many of the issues and recommendations highlighted by the former Equal Opportunities Committee in scrutiny of the Draft Budget 2011-12 remain true after a year. Examples of recurrent issues include concerns about the lack of equalities progress by public bodies, including local authorities; the quality of EqlAs, and lack of clarity about the extent to which the Draft Budget, and the policy decisions in it, were themselves subject to equality impact assessment. **This all points towards a continued lack of progress towards equality by statutory, public, and Government agencies** and makes **our recommendations and conclusions for this year even more vital** in ensuring that progress is made in coming years.

124. As representatives of the people we serve, **we urge the Government and other public agencies to fulfil their public duties**, including implementing the actions that we highlight in this report.

125. **We shall, during the year, continue to follow up on the areas identified by the former Committee.**

### THE EQUALITY STATEMENT, INFORMED BY THE WORK OF EBAG

## Follow-up on EBAG's recommendations

### *Background*

126. In 2011, the Equality and Budget Advisory Group (“EBAG”) recommended the following improvements to the Scottish Government’s Equality Statement in its report, *Equality Analysis in the Budget and Spending Review 2011 Onwards*<sup>72</sup>—

- a clear statement that the focus is on how spending contributes to promoting equality and how proposals have considered equality and socio-economic analysis;
- the use of case studies where deeper analysis could show how equality has been considered;
- the inclusion of the outputs of the various equality workshops held in preparing for the budget;
- the Equality Statement should also link as far as is possible to the Budget document;
- equality analysis and impact assessment is essential for good decision-making and should be at the core of the budget process;
- the capacity and skills of officials need to be developed to deal with the new challenges and budgetary constraints including skills on collaborative inquiry and equality analysis.

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<sup>72</sup> Equality and Budget Advisory Group. (2010) *Equality Analysis in the Budget and Spending Review 2011 Onwards – A Report by the Equality and Budget Advisory Group (EBAG)*. Scottish Government. Available at [www.scotland.gov.uk/Publications/2010/11/16135842/0](http://www.scotland.gov.uk/Publications/2010/11/16135842/0) [Accessed 23 November 2011]

*Scottish Government*

127. The Cabinet Secretary stated that Equality Statement on the Draft Budget provided information on how spending contributed to advancing equality and how the *Government* has considered the potential impacts of its spending plans on groups of people affected by discrimination and inequality. He added—

“However, it is not designed to be a statement of all that we are doing on equality.”<sup>73</sup>

128. He recognised the input of the former Equal Opportunities Committee and EBAG and *explained* that the Government had continued to seek improvements in its approach to the budget—

“We have continued to embed equality considerations throughout the budget process and have worked hard to ensure that decisions were informed by equality analysis.”<sup>74</sup>

129. He stated further that there would be “new challenges around equality analysis and *assessment*” as progress was made in public sector reform and shifting public service focus to prevention and early intervention. He committed to working further with EBAG and encouraged input from the Committee.<sup>75</sup>

130. Asked why no-one from race, religion, disability, age, or LGBT is represented on EBAG, the *Cabinet Secretary* stated that EBAG was a valuable part of the budget process but was not designed to have a representative nature—

“It is there to challenge me, to be frank, and it does that pretty well, to be honest. It challenges me from an equalities perspective, and I am not sure whether that requires to be done from a representative equalities perspective—if I can use that terminology—because I feel pretty acutely the challenge process in how I go about things.”<sup>76</sup>

131. He added that he *had* established a “much more active dialogue” between EBAG and the office of the Chief Economic Adviser—

“I say with no disrespect to the economists who advise me that I have done that deliberately to ensure that the equalities perspective is woven into the quality and nature of the advice that I receive. That has been good. The economist team has benefited from being put closer to EBAG’s work. I am certainly willing for that to be looked at afresh from other perspectives, but I assure the committee that I feel no lack of challenge to what I do from what EBAG puts in front of me and says to me.”<sup>77</sup>

*Conclusion*

**132. We welcome the Cabinet Secretary’s willingness to look afresh at inclusion of other perspectives in EBAG and await more detailed plans.**

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<sup>73</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 93

<sup>74</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 93

<sup>75</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 93

<sup>76</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 118

<sup>77</sup> Scottish Parliament Equal Opportunities Committee. Official Report, 25 October 2011, Col 118

133. Further, **we request that the Scottish Government report to us on progress towards developing the skills and capacity of staff across government and the public sector to undertake cross-agency/cross-directorate equality assessments**, including what review has been conducted of the effectiveness of workshops held and equality resource packs circulated within the Scottish Government in 2010<sup>78</sup>. The impact and effectiveness of any development activities in this area will be relevant when we come to inquire into the accessibility, quality, content and accuracy of Scottish Government EqIAs.

### **A new approach to scrutinising the Equality Statement**

#### *Background*

134. Our remit includes considering and reporting on the observance of equal opportunities within the Parliament, including the mainstreaming of equalities into the scrutiny work of the Parliament's committees. This objective was behind one of our first decisions as a committee, when we agreed to invite other committees scrutinising the draft budget to submit a short report to us, setting out what steps they took to include equalities considerations in their draft budget-scrutiny and what their findings were. Their responses contribute to our cross-cutting view of the impact of budget decisions on equalities groups. Our intention was also to help to raise awareness of committees' equalities work generally.

135. We suggested that other committees bear the following questions in mind when planning and undertaking their draft-budget scrutiny—

- What budget decisions (to increase, maintain, decrease or refocus funding) will have the most significant impact on equalities? On what evidence is this finding based?
- To what extent are these budget decisions also identified in the Scottish Government's accompanying Equality Statement?
- Overall, which equalities groups/strands are most likely to be adversely affected (and/or best protected) by budget decisions? What led the Committee to reach this conclusion?

#### *Cross-cutting impact on socio-economic groups*

136. Four committees mentioned specifically an impact on socio-economic (i.e. lower-income and deprived) groups.

137. The Rural Affairs, Climate Change and Environment Committee identified a favourable impact on inclusion of the Next Generation Digital Fund and Rural Cohesion spending. That Committee also identified a potential positive impact of the Energy Assistance Package and Home Insulation Scheme. The Committee reasoned that the elimination of fuel poverty could prevent cases of mental illnesses such as anxiety and depression, with a direct impact on equal opportunities. The Committee

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<sup>78</sup> Scottish Government. (2011) *Equal Opportunities Committee Report on the Draft Budget 2011-12 – Scottish Government Response*. Scottish Parliament, Paper EO/S3/11/6/1. Available at <http://archive.scottish.parliament.uk/s3/committees/equal/inquiries/migration/documents/LetterMargaretMitchellMSP-ConvenerofEqualOpportunitiesCommittee-ReBudget-7March2011.pdf> [Accessed 23 November 2011]

added that there would “clearly” be “equity impacts relating to the distributional impacts of policy by income groups”. However, the Committee stated that “any quantitative comment would require some formal modelling to be completed” and, “in the absence of formal empirical modelling, any conclusions would be qualitative speculation”.<sup>79</sup>

138. The Justice Committee pointed out that most prisoners originated from the more deprived areas. Given evidence of community penalties’ greater effectiveness in preventing reoffending, that Committee was concerned that funding for community penalties appeared to flatline over the Spending Review period. It recommended that the Scottish Government work with community penalty providers to assess the cost and effectiveness of such schemes, so as to better inform plans for the punishment and rehabilitation of offenders. The Justice Committee also reported that cuts to the legal aid budget (of 7% over the Spending Review period) could discourage people from bringing their cases to court where they did not have the means to secure legal representation. Another possible outcome could be to increase the number of party litigants. Evidence to that Committee also indicated that reduced budgets for the advice sector (Citizens Advice Bureaux) would be likely to result in fewer people being able to access advice on legal matters.<sup>80</sup>

139. The Education and Culture Committee explored socio-economic background in the context of FE provision. The Committee reported to us that the Cabinet Secretary for Education and Lifelong Learning rejected the suggestion that, because students from the poorest areas were more likely to go to colleges than universities, cutting college budgets was likely to affect those areas disproportionately. That Committee acknowledged that the Scottish Government produced an Equality Statement for the budget but, given the scale of reform across FE and HE, sought updates from the Scottish Government and the Scottish Funding Council demonstrating that relevant equalities considerations were being taken into account.<sup>81</sup>

140. The Economy, Energy and Tourism Committee had taken oral evidence from the STUC and the Poverty Alliance specifically to gain a broader understanding of the budget’s impact on social inequality and found that fuel poverty affected groups with socio-economic status disproportionately.<sup>82</sup>

#### *Cross-cutting impact on older people*

141. The Education and Culture Committee highlighted Scotland’s Colleges’ concerns about the possible impact on older learners of the planned greater emphasis on provision for 16-19 year olds.<sup>83</sup>

142. The Economy, Energy and Tourism Committee commented that fuel poverty affected senior citizens disproportionately.<sup>84</sup>

143. In the context of housing for older people, the Infrastructure and Capital Investment Committee noted that the Supporting Transitions budget line was to decline by 45.1% (real terms) in 2012-13 and then to decline further year-on-year.<sup>85</sup>

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<sup>79</sup> Rural Affairs, Climate Change and Environment Committee. Written submission.

<sup>80</sup> Justice Committee. Written submission.

<sup>81</sup> Education and Culture Committee. Written submission.

<sup>82</sup> Economy, Energy and Tourism Committee. Written submission.

<sup>83</sup> Education and Culture Committee. Written submission.

<sup>84</sup> Economy, Energy and Tourism Committee. Written submission.

144. The Health and Sport Committee highlighted evidence from the Chief Medical Officer suggesting that there should be investment in preventing 50 and 60-year-olds from becoming dependent elderly people.<sup>86</sup>

*Cross-cutting impact on disabled people*

145. The Local Government and Regeneration Committee drew our attention to the evidence that it had received on the impact of the UK Welfare Reform Bill and to the evidence being considered by the Health and Sport Committee. The Local Government and Regeneration Committee stated that it was “clear” that there would be “major equalities implications” emerging from that UK Bill, “especially in terms of the changes to incapacity benefit and disability living allowance”.<sup>87</sup>

146. The Education and Culture Committee reported that concerns had been raised about the impact on disabled people, particularly people with learning disabilities, of reducing the availability of part-time places.<sup>88</sup>

147. The Economy, Energy and Tourism Committee commented that fuel poverty affected disabled people disproportionately.<sup>89</sup>

*Cross-cutting impact on women*

148. The Local Government and Regeneration Committee expressed concern that a substantial number of equal pay claims against local authorities across Scotland had yet to be settled—

“This is clearly not a satisfactory situation for councils, which have to make contingent budgets for these claims in a time of declining income, or for the individuals concerned. The issue of equal pay is especially important for women, as they represent a disproportionately large percentage of low paid employees.”<sup>90</sup>

149. The Education and Culture Committee reported that concerns had been raised about the impact for women of reducing the availability of part-time places.<sup>91</sup>

*Cross-cutting scrutiny: conclusion*

150. Other committees’ reports show an **especially significant impact on lower-income and deprived groups**, with possibly related impacts on disabled people, older people and women. However, we draw to the Finance Committee’s attention the difficulties of **quantifying** this impact. **We believe that the Scottish Government should undertake an analysis with the aim of significantly improving the objective measurement of the impact of major budget decisions on equalities strands.** We ask the Finance Committee to highlight this issue in its own report.

151. We note that three committees raised **fuel poverty, which has a disproportionate effect on senior citizens, on those with disabilities and on**

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<sup>85</sup> Infrastructure and Capital Investment Committee. Written submission.

<sup>86</sup> Health and Sport Committee. Written submission.

<sup>87</sup> Local Government and Regeneration Committee. Written submission.

<sup>88</sup> Education and Culture Committee. Written submission.

<sup>89</sup> Economy, Energy and Tourism Committee. Written submission.

<sup>90</sup> Local Government and Regeneration Committee. Written submission.

<sup>91</sup> Education and Culture Committee. Written submission.

**those with lower socio-economic status.** We will keep a watching brief on this issue.

*Mainstreaming of equalities by the Parliament's committees*

152. Nine of the Parliament's committees, including ourselves, report to the Finance Committee on the draft budget. All committees responded to our request for a submission on the equalities aspects of their draft-budget scrutiny.

153. We note that committees took different approaches from one another, so there was a diversity of response to this Committee. Therefore, we plan to consider whether any approaches were more effective than others, with a view to providing feedback to other committees. We shall also take the responses received into account when considering the next steps to take on mainstreaming in the work of committees, including what guidance to give on scrutinising next year's draft budget.

## **Appendix**

### *Glossary of acronyms used in the report*

BEMIS - Black and Ethnic Minority Infrastructure in Scotland

COSLA - Convention of Scottish Local Authorities

CPPs - Community planning partnerships

EBAG - Equality Budget Advisory Group

EHRC - Equality and Human Rights Commission

EqIA - Equality impact assessment

HEAT - Health improvement, efficiency, access to services and treatment

RSLs – Registered social landlords

SOAs - Single outcome agreements

SOLACE - Society of Local Authority Chief Executives and Senior Managers

SWBG - Scottish Women's Budget Group

## **EXTRACTS FROM THE MINUTES OF THE EQUAL OPPORTUNITIES COMMITTEE**

### **2nd Meeting, 2011 (Session 4) Tuesday 28 June 2011**

**Work programme (in private):** [...] The Committee further agreed to seek to appoint an external adviser for the Draft Budget 2012-13, to place an emphasis on race and religion/belief when scrutinising the Draft Budget 2012-13 and to write to other committees inviting them to submit a short report to the Committee on their consideration of equalities matters during scrutiny of the Draft Budget.

### **3rd Meeting, 2011 (Session 4) Tuesday 13 September 2011**

**Draft Budget Scrutiny 2012-13 (in private):** The Committee considered candidates for the post of adviser and agreed an order of preference for appointment. The Committee also agreed to take an initial briefing from the adviser in private at a future meeting. The Committee further agreed to take evidence from a range of groups on the draft Budget in a round-table discussion on Tuesday 4 October and, in relation to any expenses claimed by witnesses giving evidence on the draft Budget, to delegate to the Convener authority to approve.

### **4th Meeting, 2011 (Session 4) Tuesday 27 September 2011**

**Draft Budget Scrutiny 2012-13 (in private):** The Committee considered its approach to the scrutiny of the Scottish Government's Spending Review and Draft Budget 2012-13.

### **5th Meeting, 2011 (Session 4) Tuesday 4 October 2011**

**Spending Review 2011 and Draft Budget 2012-13:** The Committee took evidence on the Scottish Government's Spending Review 2011 and Draft Budget 2012-13 from—

Patricia Armstrong, Chief Executive, Association of Chief Officers of Scottish Voluntary Organisations;  
Dr Gina Netto, Lecturer, School of the Built Environment, Heriot Watt University;  
Tallulah Lines, Project Officer Improving Local Equality Data, Improvement Service;  
Jatin Haria, Executive Director, Coalition for Racial Equality and Rights;  
Antony Clark, Assistant Director, Audit Scotland;  
Rami Ousta, Chief Executive Officer, Black and Ethnic Minority Infrastructure in Scotland;  
Susan Grasekamp, Policy Officer, Scottish Disability Equality Forum;  
Dr Claire Monaghan, Portfolio Holder for Justice, Equalities and Human Rights, Society of Local Authority Chief Executives and Senior Managers;  
Jon Harris, Strategic Director, The Convention of Scottish Local Authorities;  
Dr Salah Beltagui, Convener, Muslim Council of Scotland;  
Pauline Craig, Head of Equality, NHS Health Scotland.

**6th Meeting, 2011 (Session 4) Tuesday 25 October 2011**

**Spending Review 2011 and Draft Budget 2012-13:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 from—

John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, Yvonne Strachan, Head of Equality and Communities Division, and Nuala Gormley, Senior Principal Research Officer, Scottish Government.

**Decision on taking business (in private):** The Committee agreed that its consideration of a draft report on the Spending Review 2011 and Draft Budget 2012-13 should be taken in private at future meetings.

**7th Meeting, 2011 (Session 4) Tuesday 8 November 2011**

**Spending Review 2011 and Draft Budget 2012-13 (in private):** The Committee considered a draft report to the Finance Committee on the Scottish Government's Spending Review 2011 and Draft Budget 2012-13. Various changes were agreed to, and the Committee agreed to consider a revised draft, in private, at its next meeting.

**8th Meeting, 2011 (Session 4) Tuesday 22 November 2011**

**Spending Review 2011 and Draft Budget 2012-13 (in private):** The Committee considered a revised draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13. Various changes were agreed to, and the report was agreed for submission to the Finance Committee.



The Scottish Parliament  
Pàrlamaid na h-Alba

## European and External Relations Committee

### Report on the Spending Review 2011 and the Draft Budget 2012-13

The European and External Relations (EER) Committee reports to the Finance Committee as follows—

#### Introduction

1. The EER Committee considered the Europe and External Affairs portfolio of the Scottish Government Draft Budget 2012-13 (“the draft budget”).
2. The Committee received written evidence from the Network of International Development Organisations in Scotland (NIDOS), the Scottish Catholic International Aid Fund (SCIAF) and VisitScotland, and both oral and written evidence from the Cabinet Secretary for Culture and External Affairs.

#### *Level 4 data*

3. In order to assist its scrutiny, the Committee requested and received a detailed breakdown of expenditure (Level 4 data) from the Scottish Government regarding the Europe and External Affairs portfolio, totalling £15.9m. This data is included in Annex1.
4. The Committee is grateful to the Scottish Government for providing this additional information and considers that, given the particular nature of the Level 3 data in the portfolio, the provision of this information was critical in facilitating meaningful scrutiny of the draft budget. Specifically, the Level 4 data enabled the Committee to identify expenditure across seven individual items within the international relations budget line, which together accounted for the greater part (£14.4m) of the portfolio budget.
5. Unfortunately, this additional data did not arrive in sufficient time to allow consideration by stakeholders, which could have enhanced the Committee’s scrutiny. **The Committee asks that in the future the Scottish Government ensures that Level 4 data is delivered to the EER Committee within a timeframe that allows stakeholders to consider and to contribute in greater detail to the Committee’s scrutiny process.**

### *Preventative approach*

6. The Finance Committee agreed the recommendation of its predecessor committee that scrutiny of preventative spending should be integral to the annual budget process and that subject committees should be invited to scrutinise the Scottish Government's progress in moving towards a more preventative approach to public spending. The EER Committee has therefore taken this approach in considering the Europe and External Affairs portfolio.

7. In written evidence to the Committee, NIDOS suggested that:

“Although the Scottish Government's focus on ‘Preventative’ approaches for this budget is mainly in relation to domestic spending to tackle Scotland's social and economic problems, spending on External Relations could also be seen to have ‘preventative’ elements”.

8. In oral evidence, the Cabinet Secretary agreed, saying that the Scottish Government was “putting preventative spending into action on a global scale through international development funding”<sup>1</sup>. She gave examples notably in relation to the social dimension of Government's international development work, such as support to children in other countries and the climate change agenda.

### **Europe and External Affairs portfolio**

9. The Committee considered the Europe and External Affairs expenditure under two main headings – major events and themed years, and international relations. The Draft Budget 2012-13 proposes to freeze the international relations budget (in cash terms) and reduce the budget for major events and themed years.

10. The 2012-13 draft budget shows a small cash terms decrease compared to 2011-12, with the budget falling from £16.1 million to £15.9 million. In real terms this is a percentage decrease of 3.7% or a cash decrease of 1.2%. All budget lines are to be frozen or decreased – with the exception of the North America strategy which shows a real terms increase of 13.6%.

11. The Committee also asked the Scottish Government to explain how the level of proposed reduction in the Europe and External Affairs budget compare with reductions across other Government departments. The Cabinet Secretary sent an explanatory table detailing the other budgets in context with her portfolio (see Scottish Government's supplementary written evidence).

### **Major Events and Themed Years Budget**

12. The draft budget for 2012-13 allocates £1.5m for major events and themed years. This reflects a small cash reduction of £0.2m compared to the 2011-12 budget. However, given the relatively small overall budget this equates to a percentage cash reduction of 11.8% or a real terms reduction of 13.9%.

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<sup>1</sup> Scottish Parliament European and External Relations Committee. *Official Report*, 1 November 2011, Col 168.

13. The Draft Budget<sup>2</sup> states that the Major Events and Themed Years Budget will support:

- the development of Scotland's events industry;
- the themed Year of Creative Scotland in 2012 and the Year of Natural Scotland in 2013; and
- some of the initial activity in the staging of the Year of Homecoming in 2014.

14. The Scottish Government explained that it had reduced the Major Events and Themed Years budget by £0.2m in 2012-13 as budgetary commitments for the year could be met from a reduced budget. In the previous two years this budget made a significant contribution towards the cost of the new Royal Edinburgh Military Tattoo Stand. There is no further requirement in relation to this project.<sup>3</sup>

15. In its written evidence to the Committee, VisitScotland welcomed the Scottish Government's commitment to this budget line which supports VisitScotland's work in promoting Scotland both as a tourism destination and overseas to key markets and also as a stage for hosting international and national events, and the delivery of Homecoming Scotland 2014.

16. The major events and themed years budget will increase in 2013-14 to £1.6m and return to 2011-12 levels of £1.7 million by 2014-15. The Scottish Government explained that 'this is to allow for increasing activity in the run up to and during our second Year of Homecoming in 2014'<sup>4</sup>.

### **International Relations**

17. The draft budget for international Relations in the years is frozen at £14.4m *i.e.*, the 2011-12 level.

18. The International Relations budget is divided into seven Level 4 budget lines of International Development, International Strategies, International Image, International Image, North America Strategy, British Irish Council Secretariat and Fresh Talent.

#### *International Development*

19. The Scottish Government has frozen international development spending at £9 million for the third successive year. Whilst this is a freeze in cash terms, it actually equates to a real terms cut of just over 5% based on 2010-11 prices.

20. The Committee asked the Cabinet Secretary whether a cash freeze would continue to allow the Government to achieve all its objectives for its international development policy. A written response stated;

'This administration has significantly increased the International Development Fund from a baseline of £3 million in 2008/09 to £9 million, an increase that

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<sup>2</sup> Scottish Spending Review 2011 and Draft Budget 2012-13, pg171.

<sup>3</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

<sup>4</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

we have maintained for this Spending Review period despite the difficult economic climate. It is worth remembering that our contribution is not monetary alone. It is about facilitating partnerships and encouraging others to engage in international development. We have had a number of successes where our contribution has unlocked other funds, for example from the EU for projects in Malawi. In addition, having the level of the International Development Fund set for three years will also allow funding rounds to be planned further in advance and responds to the sector's calls to give their organisations more lead in time for applications.<sup>5</sup>

21. The International Development budget is intended to enhance Scotland's place in the world as a responsible nation as outlined in the Scottish Government's International Framework. It facilitates the Scottish Government's contribution to decreasing global poverty through activity which is designed to support the achievement of the Millennium Development Goals and economic growth in developing countries. The budget is targeted at Malawi, Sub-Saharan Africa and South Asia.

22. In its written evidence to the Committee, both SCIAF and NIDOS welcomed the Scottish Government's decision on maintaining this budget line in difficult financial times and the indication that it would be protected in future years. NIDOS noted in written evidence that although Scotland was only spending 0.027% of its annual budget on the international development fund, 'this tiny fraction...punches well above its weight in developing a positive reputation in Scotland abroad'.

23. NIDOS suggested that efficiency savings could be made in this budget line<sup>6</sup>, particularly the Scottish Government's administration systems for the International Development Fund - which NIDOS had highlighted previously to the EER Committee in the previous year's draft budget scrutiny. The Cabinet Secretary stated that she would liaise with NIDOS on their concerns and that the Scottish Government was endeavouring to make grant systems more efficient in order to have a bigger lead-in time for applications to be made<sup>7</sup>.

24. SCIAF's written evidence asked the Scottish Government to create a Climate Adaptation Fund of £9million to help people in developing countries adapt to and survive the impacts of climate change. While acknowledging the importance of climate change issues, the Committee recognises the significant pressures upon the Scottish Government's Europe and External Affairs Budget, and therefore suggests that the Scottish Government give consideration to the proposals as part of its broader commitment to climate change issues.

25. The Committee questioned the Scottish Government as to whether the international development policy was targeted on too many areas (Malawi, Sub-Saharan Africa and South Asia) given its comparatively small (and falling in real terms) budget.

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<sup>5</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

<sup>6</sup> See NIDOS written evidence to the EER Committee for more details.

<sup>7</sup> Scottish Parliament European and External Relations Committee. *Official Report*, 1 November 2011, Col 171.

26. The Cabinet Secretary replied that the Scottish Government had;

‘developed a unique approach, building on the expertise in Scotland and carefully targeting our areas of support to priority countries, to ensure a more cohesive programme. We have tailored our approach and the nature of our relationships differ across priority countries. We also keep our development programmes under continual review. Now that our budget has been confirmed across the three years of this Spending Review period we have the opportunity to consider how best to allocate our spending and achieve the greatest impact for our budget. This is something I will be considering and discussing with the sector in the coming months.

The International Development Policy is one of the plans that sits within the International Framework and supports those wider objectives of economic growth for all. We have already reflected a stronger interest in economic development in our South Asia development programme, with 'sustainable economic development' as the thematic focus. Our Malawi programme, led by the Scotland Malawi Co-operation Agreement has a key strand on economic development and we already support a number of projects under this theme.<sup>8</sup>

27. In written evidence to the Committee, NIDOS wrote:

‘NIDOS is also keen to see added value being brought to the use of the External Relations budget over the next few years, by seeing the government developing a more cohesive approach to their more commercially focused external relations spend and the international development programme. NIDOS does not see this being achieved by the diversion of any of the £9 million in the International Development programme into supporting Scottish Businesses, but rather in ensuring more complementarity in aims between these two areas of operation under the External Relations policy and budget.’

28. The Committee asked the Scottish Government how the Government could use the Europe and External Relations budget separately from international development to promote its development policies. The Scottish Government’s response in writing said:

‘I am aware that NIDOS recently held a business networking seminar which was very successful in bringing together those from the business and international development sectors. My officials are in contact with NIDOS to follow up on this event, and are setting up further meetings between NIDOS and Scottish Development International who provide information, support and advice for Scottish businesses operating overseas. Scotland is an innovative and compassionate nation and there is great scope for Scotland to lead the way as an economically successful country, and an ethical one too.’<sup>9</sup>

**29. The Committee joins stakeholders in welcoming the maintenance of the International Development budget line in these difficult economic times. The**

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<sup>8</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

<sup>9</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

**Committee would also like to acknowledge the benefit of the Scottish Government’s model of funding, namely directing monies toward individual projects rather than via intermediate agencies.**

#### *International Strategies*

30. The International Strategy budget is used to support engagement and collaboration with priority countries (including India and China) in areas such as: trade and investment; education and science; and tourism and culture to improve Scotland’s image abroad and directly contribute to Scotland’s economic growth. As a result the budget will contribute towards the Scottish Government’s work as outlined in its China, India and Pakistan plans.

31. The Scottish Government figures show a cash terms freeze on the budget for the international strategy compared with 2010-11 but a real terms cut of 2.4%

32. Given the growing importance of China and India, the Committee queried why the Government has proposed a cash terms freeze in the funding for engagement and collaboration with these priority countries.

33. The Scottish Government recognised that China and India, as well as our other priority countries, will continue to be essential partners for Scotland in both the medium and long term; and that ‘these countries will remain a key priority for Scotland’s international engagement over the next 5 years of this Parliament’. The Cabinet Secretary also highlighted that, ‘It is important to note that much of the expenditure for engagement with priority countries does not come exclusively from the International Strategy budget. Other Scottish Government policy areas and partner organisations, such as Scottish Development International, VisitScotland and Creative Scotland, have a remit and budget to engage internationally.’<sup>10</sup>

#### *International Image*

34. The international image budget shows a cash terms decrease of £123,000. Compared with the 2011-12 figure, this is a real terms decrease of 6%.

35. The Committee asked the Cabinet Secretary for more detail what the Scottish Government was looking to achieve with spending on international image. The Cabinet Secretary explained that ‘the International Image budget ensures Scotland’s international profile and reputation continue to grow, particularly in the key countries and regions specified in our International Framework. The budget is designed to build recognition of Scotland as a great place to live, work, learn, visit, do business and invest, thus sustaining and nurturing Scotland’s reputation as a progressive and globally influential nation.’<sup>11</sup>

36. The Committee also requested a more detailed breakdown of figures as to how this part of the budget is proposed to be spent.

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<sup>10</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

<sup>11</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

37. The Cabinet Secretary stated that plans for 2012-13 spend have still to be fully agreed, but will include activity around key international events such as the 2012 Ryder Cup in Chicago, Scotland Week and key sporting and cultural events being held in Scotland.<sup>12</sup>

38. The Committee queried as to why the international image proportion of the budget was relatively low and also asked for information from the Scottish Government to reassure them it was being allocated to the most productive areas. The Cabinet Secretary replied that;

‘In order to capitalise on the opportunities that arise over the course of a year, a proportion of the budget is likely to be discretionary. This gives the Scottish Government the flexibility and responsiveness to strengthen Scotland’s international reputation by supporting events or activities which promote Scotland as being internationally attractive and competitive.

39. She also gave examples of what this budget line had been spent on in this financial year which was to:

- manage and develop an overarching ‘Scotland’ brand;
- promote the Points of Entry campaign;
- deliver communication support in our priority countries; and
- deliver Scotland’s Winter Festivals.

A proportion of the budget has also been used to support marketing and communication of international activities. The budget has also supported the development of initiatives outlined in the Diaspora Engagement Plan.

#### *North America Strategy*

40. The North America Strategy budget line supports the Scottish Government’s activities in the USA and Canada. Uniquely in the international relations budget line, and for the second year running, funding for the North American Strategy will actually rise in 2012-13 compared with 2011-12 – by £75,000. This is a real terms increase of 13.6%.

41. The Committee noted the relatively large increase and asked the Cabinet Secretary what the rationale was for this increased amount in the United States rather than in other international strategy areas like China and India.

42. The Cabinet Secretary highlighted that this budget was small overall (£530,000) in a relatively small budget portfolio, and this could skew the percentage increase. She explained that this budget increase would allow the Scottish Government to support an office in Toronto in Canada and to carry forward commitments in the Government’s Canada country plan; and that interactions with international countries like China and India were not all related to an in-country presence but that other

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<sup>12</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

methods like inward and outward visits were equally influential and had a different cost<sup>13</sup>.

#### *British Irish Council Secretariat*

43. The Committee noted that the Scottish Government is now responsible for hosting the British Irish Council Secretariat in Scotland, the consequence of which, a new budget line of £164,000) to support the cost of the British-Irish Council Standing Secretariat in Edinburgh.

44. The Committee asked the Scottish Government whether this sum is a one-off cost to establish the Secretariat, or whether it will be required for a longer period, and if so, what that longer timeframe will be. The Committee also asked for clarity as to whether the Secretariat will remain in Scotland, or whether it would move to another country to host it.

45. In response, the Cabinet Secretary wrote;

‘The Scottish Government has made commitments to meet both the set-up costs and support an agreed percentage of the running costs of the Standing Secretariat (the remainder of the running costs will be split amongst other BIC administrations). Allocation has been planned from within existing budgets and the £164,000 earmarked for 2012/13 comprises the Scottish Government’s share of the Standing Secretariat’s running costs and the bulk of the projected costs of hosting the 18th BIC Summit in Scotland, in summer 2012. Given that hosting the Standing Secretariat in Edinburgh is an open-ended commitment the intention is for it to remain in Scotland for the foreseeable future.<sup>14</sup>’

#### *Fresh Talent*

46. This budget funds the free Relocation Advisory Services which provides immigration advice to potential migrants and information on employing migrants to business in Scotland. Additionally the budget funds the roll out of the COSLA Migration Toolkit which allows local authorities to plan for migration in their area and aid integration into communities. The remaining budget funds activity to promote Scotland as a place to work, live, learn and remain – both in Scotland and internationally.

47. The Committee noted that the Fresh Talent budget for 2012-13 will fall by £146,000 in cash terms compared to the current year - which equates to a real terms decrease of nearly 16%. The Committee noted this significant decrease and the risk

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<sup>13</sup> Scottish Parliament European and External Relations Committee. *Official Report, 1 November 2011*, Col 170.

<sup>14</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

of fewer young people choosing Scotland as a place of work or study given the efforts made by other countries to secure this positive migration<sup>15</sup>.

48. The Cabinet Secretary explained the £146,000 decrease derived from reducing marketing spend, a possible merger of services with the relocation service and increased efficiency, for example, by closer working with TalentScotland<sup>16</sup>. She stated that the UK Government's decisions on immigration policy had restricted some of the Fresh Talent initiative such as policies on visas thus mitigating the Scottish Government's role, and that the Scottish Government was 'continuing to robustly make the case for Scotland to be treated differently from the rest of the UK'<sup>17</sup>.

49. She also highlighted that; 'core provision of the Relocation Advisory Service to support individuals and employers with visa, immigration and relocation advice, and our work to support the COSLA Strategic Migration Partnership and a number of smaller projects are all unaffected'.

50. The Committee also questioned what the decrease was in the UK budget in this area as they wished to make a comparison in terms of relative spend. The Cabinet Secretary said that she was not aware of any UK Government initiative that is similar to the Fresh Talent initiative for comparative purposes.

**51. The Committee was content with the Cabinet Secretary's reassurances regarding the decrease in the Fresh Talent budget, and agreed to consider the effectiveness of this initiative in more depth with stakeholders in the new year.**

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<sup>15</sup> Scottish Parliament European and External Relations Committee. *Official Report, 1 November 2011*, Col 172.

<sup>16</sup> Scottish Parliament European and External Relations Committee. *Official Report, 1 November 2011*, Col 169.

<sup>17</sup> Scottish Government supplementary written evidence to the European and External Relations Committee, 9 November 2011.

**Annex 1 – Level 4 data for the Europe and External Affairs portfolio of the Scottish Government’s Draft Budget 2012-13**

| Description   | £000's        |               |
|---|---------------|---------------|
|   | 2011-12       | 2012-13       |
| <b>Major Events and Themed Years</b>                        |               |               |
| Major Events  | 1,700         | 1,530         |
|   | <b>1,700</b>  | <b>1,530</b>  |
| Table 12.03 Spending Review Publication                     | <b>1.7</b>    | <b>1.5</b>    |
|   |               |               |
| <b>International Relations</b>                              |               |               |
| British Irish Council Secretariat                           | 0             | 164           |
| International Strategy                                      | 430           | 430           |
| North American Strategy                                     | 455           | 530           |
| Fresh Talent  | 1,055         | 909           |
| International Development                                   | 9,000         | 9,000         |
| Scotland's International Image                              | 3,330         | 3,207         |
| European Strategy   | 130           | 130           |
|   | <b>14,400</b> | <b>14,370</b> |
| Table 12.03 Spending Review Publication                     | <b>14.4</b>   | <b>14.4</b>   |
|   |               |               |
| <b>Total</b>  | <b>16,100</b> | <b>15,900</b> |
| <b>Europe and External Affairs: Table 12.01 &amp; 12.03</b> | <b>16.1</b>   | <b>15.9</b>   |

**EXTRACTS FROM THE MINUTES OF THE EUROPEAN AND EXTERNAL RELATIONS COMMITTEE**

**6th Meeting, 2011 (Session 4), Tuesday, 1 November 2011**

**Draft Budget Scrutiny 2012-13:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 from—

Fiona Hyslop MSP, Cabinet Secretary for Culture and External Affairs, Scottish Government.

**Draft Budget Scrutiny 2012-13:** The Committee considered the evidence taken earlier in the meeting, and agreed to write to the Cabinet Secretary for Culture and External Affairs with further questions.

**7th Meeting, 2011 (Session 4), Tuesday, 15 November 2011**

**Decision on taking business in private:** The Committee agreed to take items 6 and 7 in private.

**Draft Budget Scrutiny 2012-13 (in private):** The Committee considered its draft reports to the Finance Committee and the Equal Opportunities Committee on the Scottish Government's Draft Budget 2012-13. The Committee agreed to forward the reports to these two committees subject to several agreed amendments being made to the report for the Finance Committee.



The Scottish Parliament  
Pàrlamaid na h-Alba

## Health and Sport Committee

### Draft Report on Draft Budget 2012-13 and Spending Review 2011 Scrutiny

The Committee reports to the Parliament as follows—

#### CONTEXT

1. The Scottish Spending Review 2011 and Draft Budget 2012-13 (SSRDB) was published on 21 September 2011 and sets out the Scottish Government's spending plans for the three financial years 2012-15. The Committee has taken oral and written evidence on the sections affecting health and sport.

2. This Report is divided into three sections. Section 1 covers the budget allocation for Health and for Sport, concentrating on any additional data that was not presented in the SSRDB document. Section 2 includes the Committee's comments on specific lines in this budget, efficiency savings, NHS inflation rate, and so on. Section 3 presents the Committee's comments on more general cross-cutting themes such as preventative spending, change funds, and integration. The Committee also briefly considers whether the existing structures in health care can cope with cost pressures.

#### SECTION 1 – THE ALLOCATION FOR HEALTH AND SPORT

3. The Committee notes that the share of Health, Wellbeing and Cities within total expenditure is planned to increase across the period of the spending review, from 34.1% in 2011-12 to 34.5% in 2014-15. The services funded from this part of the budget have been relatively well protected compared with the rest of the public sector. Some would argue that it is then the duty of these services to demonstrate that efficiency and quality are at the heart of every spending decision. Protection of the budget must not lead to complacency.

4. As the adviser to the Finance Committee, Professor David Bell, pointed out, account must be taken of the picture when rising costs are allowed for—

“The budget is certainly tighter than it has been for the past 10 years or so since devolution was instituted. There is a big difficulty in knowing whether there is a real terms increase, because of the problem of the deflators that we apply to the cash amounts that have come through in the draft budget.”<sup>1</sup>

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<sup>1</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 375.

5. The SSRDB provides data on the application of the GDP deflator, as follows—

**Real Terms Analysis of ‘NHS and Special Health Boards’ and ‘Other Health’ lines<sup>2</sup>**

| £m                                   | 2011-12  | 2012-13  | 2013-14  | 2014-15  |
|--------------------------------------|----------|----------|----------|----------|
| <b>2011-12 prices</b>                |          |          |          |          |
| <b>NHS and Special Health Boards</b> | 8,645.1  | 8,646.1  | 8,673.8  | 8,686.3  |
| <b>Other Health</b>                  | 2,135.4  | 2,114.3  | 2,082.1  | 2,049.6  |
| <b>Total</b>                         | 10,780.5 | 10,760.5 | 10,755.9 | 10,735.9 |
| <b>Change on previous year:</b>      |          |          |          |          |
| <b>NHS and Special Health Boards</b> |          | 1.0      | 27.7     | 12.5     |
| <b>Other Health</b>                  |          | -21.1    | -32.2    | -32.5    |
| <b>Total</b>                         |          | -20.0    | -4.6     | -20.1    |

6. Data on Level 3 spending are available in the SSRDB document, but analysing the same data by changes in allocation shows clearly the decisions that have been made (see table on following page).

7. The allocation will be very heavily concentrated upon NHS boards, with the territorial boards likely to be strongly favoured (the precise split between territorial and special boards for future years is not currently available). By contrast many lines in the budget show either zero growth in cash terms or very minimal change and so these can be anticipated to fall in real terms.

8. Level 4 data for Health show the allocation within some of the lines of the Budget. The line for which this provides the most extra information is Miscellaneous Other Services line with an allocation of £114 million. Level 4 reveals that £79 million is for central/national projects and £34 million for miscellaneous allocations to NHS boards. Examples of the larger elements of the national programmes include implementation of the carers’ strategy, improving wheelchair services, and services to tackle contaminated blood. Within this grouping there are more than 20 other examples cited in level 4 and this still leaves £17.8 million for national allocations of less than £1 million for which no information is provided. In addition, no information is given on the £34.9 million marked for NHS boards. Clearly a balance needs to be struck regarding how much to present in a budget document, yet these are still considerable sums of money – adding the £34.9 million and the £17.8 million together gives £52.7 million which could make a substantial difference to other programmes.

<sup>2</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> and SPICe Financial Scutiny Unit. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB11-72.pdf>

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| Annual change in cash terms (£million)            | 2012-13 | 2013-14 | 2014-15          |
|---|---------|---------|------------------|
| NHS and Special Health Boards                     | £217m   | £268m   | £260m            |
| <b>Education and Training</b>                     |         |         |                  |
| Workforce education & training                    | £3m     | £0m     | £0m              |
| Nursing education & training                      | £0m     | £0m     | £0m              |
| <b>Primary and Community Care Services</b>        |         |         |                  |
| General Medical Services                          | £0m     | £0m     | £0m              |
| Pharmaceutical Services Contractors' Remuneration | £0m     | £-1m    | £-1m             |
| General Dental Services                           | £0m     | £0m     | £0m              |
| General Ophthalmic Services                       | £0m     | £0m     | £0m              |
| <b>Improving Health and Better Public Health</b>  |         |         |                  |
| Health Improvement and Health Inequalities        | £1m     | £2m     | £2m              |
| Pandemic Flu Preparedness                         | £2m     | £3m     | £6m              |
| Health Screening                                  | £-1m    | £1m     | £0m              |
| Tobacco Control                                   | £0m     | £0m     | £0m              |
| Alcohol Misuse                                    | £0m     | £0m     | £0m              |
| Health Protection                                 | £0m     | £0m     | £0m              |
| Mental Wellbeing                                  | £0m     | £0m     | £0m              |
| Healthy Start                                     | £0m     | £1m     | £1m              |
| Mental Health Legislation and Services            | £0m     | £0m     | £0m              |
| Specialist Services for Children                  | £0m     | £0m     | £0m              |
| Early Detection of Cancer                         | £7m     | £1m     | £5m              |
| <b>General Services</b>                           |         |         |                  |
| Research  | £1m     | £1m     | £0m              |
| Distinction Awards                                | £-2m    | £0m     | £0m              |
| Access Support for the NHS                        | £-74m   | £2m     | £2m              |
| Quality Efficiency Support                        | £0m     | £0m     | £0m              |
| Clean Hospitals/MRSA Screening Programme          | £0m     | £0m     | £0m              |
| eHealth   | £0m     | £0m     | £0m              |
| Self Directed Support                             | £4m     | £7m     | £-5m             |
| Miscellaneous Other Services                      | £-1m    | £0m     | £2m              |
| Care Inspectorate                                 | £0m     | £0m     | £0m              |
| Provision for Transfer to Capital                 | £95m    | £10m    | £15m             |
| Resource Income                                   | £-2m    | £-2m    | £-2m             |
| <b>Capital</b>                                    |         |         |                  |
| Capital Investment                                | £-23m   | £-73m   | £-142m           |
| Capital Receipts                                  | £-12m   | £0m     | £0m              |
| NHS Impairments                                   | £0m     | £0m     | £0m <sup>3</sup> |

9. Sport also has a generous settlement, with the budget of £66.4 million in 2011-12 increasing by £5.5 million in 2012-13, a further £54.1 million in 2013-14 and a further

<sup>3</sup> Calculated from data in: Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf>

£66.1 million in 2014-15. At Level 3 there are 2 lines in the Budget, a 'core' sport allocation which falls slightly in cash terms from 2011-12 to 2014-15, and the Commonwealth Games plan which accounts for the substantial increase in funding. The Committee notes that summing the figures for 2011-12 and the subsequent three years gives an allocation of £331.3 million in this period.

## SECTION 2 – COMMENTS ON SPECIFIC ASPECTS OF THE PROPOSED ALLOCATION

10. In this section the Committee comments on specific lines in the budget, the calculation of inflation, efficiency savings, and the level of detail provided.

11. In terms of particular lines within the Level 3 allocation:

- The Committee notes that the lines for primary care practitioner remuneration and for distinction awards are determined at a UK level and hence the final amount may be higher or lower than expected.
- There is a new line for “early detection of cancer” to implement the recently announced “Detect Cancer Early” strategy. By the end of the Parliamentary term this will have cost £26.7m and it is estimated that it will have saved 300 lives; a simple arithmetical division suggests a cost per life saved of £89,000, although the true figure would have to take account of a number of other factors.
- There is an important change in Access Support for the NHS. This provides support to the NHS in achieving the 18 week waiting times target. This is set to decrease by just over 69% in cash terms over the course of the spending review, with the key reduction taking place between 2011-12 and 2012-13. Just over £76m is to be taken from this line in 2012-13, compared with the previous year, and given to Boards directly through their resource allocations. The remainder is for special health boards that contribute to waiting time reduction.

### The GDP deflator

12. The Committee understands the advantages of applying a consistent factor across all chapters of the Budget and from this point-of-view the GDP deflator is a strong candidate. However, it is not clear that this reflects the cost pressures faced by NHS boards, as pointed out by Professor David Bell in oral evidence—

“I think that we have been misled for a long time by the use of gross domestic product deflators in making assessments of whether there is a real terms increase in the health budget, because the cost profile in health is so different from other parts of the Scottish budget.”<sup>4</sup>

13. The problem is that there is no ready alternative. In oral evidence to the Committee the Cabinet Secretary said—

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<sup>4</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 375.

“[T]he board uplifts during the next three years will be 2.9 per cent, 3.3 per cent and 3.1 per cent. I think that we all accept that inflation in the health service is a bit steeper than inflation generally. However, it is not possible to come up with a fixed percentage in that regard, because the nature and extent of pressures on the health budget vary from year to year.”<sup>5</sup>

14. However, she was able to provide helpful figures on SGHD’s estimates of the cost pressures facing NHS boards—

“In 2012-13, we estimate inflationary pressures to be £27 million in relation to pay, in the region of £70 million to £80 million in relation to drugs and around £34 million in relation to non-pay issues.”<sup>6</sup>

15. This adds up to between £131m and £141m in 2012-13. The allocation for NHS and special boards in 2011-12 was £8645.1m so the elements listed constitute an inflation rate of 1.5%-1.6%. If this were only applied to NHS boards then the figures only increase to around 1.7%-1.8%. The Committee recognises that there may be other components to the NHS inflation rate; for example, non-medicines technology costs do not appear to be included. Nevertheless, cost pressures of 1.5-1.8% seem low by historical standards, even if recent pay restraint has helped bring the figure down. For example, the Committee’s predecessor surveyed NHS boards in April 2010 and found they were anticipating cost pressures of 4% or more. The Committee would welcome comments from the Scottish Government on this point, looking at ways in which a more appropriate NHS inflation index could be calculated. The Committee plans to explore this issue in more detail with NHS boards in 2012.

### **Efficiency savings**

16. The Committee notes that the SSRDB document does not include specific efficiency savings for Health. During oral evidence the Cabinet Secretary said—

“[F]or 2012-13, I expect health boards to deliver efficiency savings in the region of 2.5 to 3 per cent. Beyond that year, the figures to an extent will depend on pressures that emerge and that currently are not known precisely. For example, we do not know the extent to which pay will be a pressure on budgets when we come out of the period of pay freeze.”<sup>7</sup>

17. Efficiency savings have to be made to cover the gap between cost pressures and the allocation, and a single national target may not reflect the position any individual board finds itself in. The Committee will pursue this matter with NHS boards when it returns to these issues in 2012.

18. The Committee also heard evidence from witnesses about the way savings are being made. For example, Teresa Fyffe, Director of RCN Scotland, said—

“The concept of less is more is laudable, but when you are on the front line and less is more means that you have more work to do and fewer staff, it does not

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<sup>5</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 518.

<sup>6</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 518.

<sup>7</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 500.

feel laudable. There is grave concern at the moment about quality of patient care.”<sup>8</sup>

19. Matt McLaughlin from UNISON also made this point—

“It would be a mistake to gloss over the fact that 1,100 admin workers have been taken out of the service as well. They do a valuable job, quite often facilitating registered professionals to deliver the front-line service. I will give you an example. NHS Greater Glasgow and Clyde is in the process of carrying out a survey of health visitors’ work on childcare and child health. My understanding is that that survey will conclude that between 12 and 17 per cent of health visitors’ time is spent dealing with patients on a one-to-one basis. The rest of their time is spent filling out forms and doing paperwork. Many registered nurses and other professionals in the NHS will empathise with that.”<sup>9</sup>

20. The Committee will return to these issues when it takes evidence from NHS boards in the first half of 2012.

### **The availability of information for budget scrutiny**

21. In previous reports to the Finance Committee, the Health and Sport Committee has commented on the problems created for scrutiny by the format of budget documents. Professor David Bell recognised this point in oral evidence to the Committee—

“I would argue that the Health and Sport Committee is not in a particularly good position to make the case because it is not sufficiently well informed.”<sup>10</sup>

22. To illustrate, even when Level 4 data are available, the number of layers within the budget mean that the allocation to NHS boards has only just been reached; with a total of £8.9 billion shared between the boards, this represents a very considerable proportion of the total spending of the Scottish Government. It is debatable whether, when the budget process was being devised, it was ever envisaged that two lines in the Level 4 detail would be for in excess of £1 billion (the allocations to Greater Glasgow & Clyde and to Lothian NHS boards). For this reason, the Committee plans to hold a second round of scrutiny with NHS boards at the start of the new financial year in 2012 when their allocations are certain and spending plans are available.

23. An additional concern is that Level 4 data are being supplied at quite a late stage of the process, with the Committee (and witnesses) only receiving these data the day before the first oral evidence session. The Committee sees the need for dialogue with SGHD at the end of the present round of scrutiny to establish the Committee’s information requests for subsequent budgets with an expectation of the timing and format of the delivery of these data.

24. To this end, the Committee is much encouraged by the statement from the Cabinet Secretary for Health, Wellbeing and Cities Strategy in the context of the Scottish Government’s scrutiny of health boards’ performance that—

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<sup>8</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 469.

<sup>9</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 469.

<sup>10</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 379.

“We will ensure that the Committee has any information that it needs to perform that scrutiny role, too.”<sup>11</sup>

### Changes to the proposed allocation

**25. The Committee does not wish to propose changes to the draft budget allocation published by SGHD. The Committee looks forward to the publication of the review of Distinction Awards. The Committee believes that any monies released should be retained within the health budget.**

### SECTION 3 – COMMENTS ON MORE GENERAL ASPECTS OF THE PROPOSED ALLOCATION

26. This section addresses more general themes covered in scrutiny such as preventative spending, integration, and change funds.

27. The SSRDB document makes the case for changes in services through more integration and preventative spending. Professor Susan Deacon’s response is representative of the support heard in oral evidence—

“The fact is that, in the lifetime of the Parliament, the NHS budget in Scotland has almost trebled. The amount of public money is substantial and we need to focus on how it is spent. There is a need for significant shift in Government resource—in substance and as a signal—not only in health but in other policy areas, such as education, to demonstrate a meaningful move towards prevention.”<sup>12</sup>

28. Dr Roger Gibbins made an equally eloquent case for integration—

“[T]he full integration of health and social care...is where the big benefits can be gained and where we can overcome some of the perverse incentives that exist at the moment whereby somebody occupies an acute hospital bed for the sake of a few hours of home care, because the cost of home care sits in one budget and the cost of the hospital bed sits in another budget. If we put those two budgets together, nobody in their right mind would have somebody sit in a hospital bed, with the associated cost to the health system, if they had the money to buy that person home care. I cannot emphasise enough just how important the integration agenda is.”<sup>13</sup>

**29. The Committee agrees that integration and prevention are strategic priorities for the development of the NHS.**

154. At several points during the oral evidence the question was raised of more fundamental change such as a structural reorganisation of the health service. While some witnesses could see a case for change, none of them ultimately advocated it – the consensus seemed to be that the benefits were, at best, uncertain while the costs in terms of disruption and loss of focus were all too likely.

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<sup>11</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Cols 500-01.

<sup>12</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 380.

<sup>13</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 384.

30. Professor Susan Deacon told the Committee—

“I do not think that you can underestimate just how disruptive some of that kind of structural reorganisation is, whether it is in the NHS or local government. That is why I think we have lived with a messy and not particularly efficient system for a long time now; there is recognition of the difficulties and dangers of going for large-scale structural reform.”<sup>14</sup>

31. Professor David Bell said—

“Since the Scottish Parliament was set up, the NHS in England has gone through three or four complete structural changes and it is not clear that they have been beneficial.”<sup>15</sup>

32. In terms of the budget, therefore, the Committee concluded that the focus should be on making the best use of the available resources through the existing organisation. While this might require big changes to culture and working practices, it did not require a more disruptive organisational change. The way forward was seen as being integration of local services and a switch in emphasis to preventative spending. While enjoying a broad consensus, there are several issues and challenges relevant to budget scrutiny.

*Is it clear what broad strategic priorities such as integration and preventative spending mean?*

33. The Committee found it difficult to find an over-arching definition of preventative spend. One approach was in terms of spending on health promotion and public health, such as measures to address obesity, alcohol abuse, and smoking tobacco.

34. Other witnesses, Matt McLaughlin of UNISON for example, saw preventative spend as being still broader—

“We see preventative spend as involving much more than health and social work. It encompasses housing and education and the communities in which people live. Linkage across those areas is essential if we are to make preventative spending work effectively in the long term.”<sup>16</sup>

35. By linking preventative spending to change funds, the Scottish Government clearly favours the broader interpretation, perhaps best summarised by Bill Alexander, Director of Social Work at Highland Council, as follows—

“I suggest that preventative spend is doing something quickly, effectively and timeously, to prevent situations from escalating in a way that will need greater intervention and greater spend later.”<sup>17</sup>

36. While the Committee supports a broader definition it notes that this makes it hard to identify what is and is not preventative spending. The Cabinet Secretary said—

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<sup>14</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 400.

<sup>15</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 401.

<sup>16</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 465.

<sup>17</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 434.

“The £500 million is intended to up our game by setting a clear direction for shifting more of our spend into prevention rather than reaction.”<sup>18</sup>

37. However, it is important not to become embroiled in a debate concerning this when, in terms of budget scrutiny, the issue is whether it is clear what has been allocated, for what purpose and whether the Parliament will be able to judge whether the goals have been achieved. It is helpful that the Scottish Government has chosen the change funds as the vehicle for this spending since it does give a degree of transparency. (Change funds are considered in more detail in a later section.)

38. The point was made by the Cabinet Secretary that preventative spending was not confined to the £500 million discussed in the SSRDB and that the existing allocation to health was also used for this purpose, for measures such as smoking cessation, healthy weight strategies etc.<sup>19</sup>

*How much evidence do we need before we act on prevention and integration?*

39. This is of concern in budget scrutiny terms for two reasons. First, how long should a new project or initiative be evaluated before it is judged a success, and from the point-of-view of the budget, good value-for-money? Second, how easy is it for a project to switch from temporary funding while it is being appraised to permanent funding once it is judged a success?

40. The Committee heard considerable debate among witnesses on the evidence required. While it is conventional to assume all new projects requiring public funding above a certain limit require evaluation, there were exceptions. For example, Dr Gibbins pointed out there was no evidence to underpin setting the maximum waiting time for elective surgery at 18 weeks.<sup>20</sup> More generally, Professor Susan Deacon made a case that, while evaluation was by no means a bad thing, a continual quest for and sifting of the evidence could become an alternative for action—

“Some big system shifts are needed at a higher level but, underneath that, you must also examine where many of the costs are incurred within our public services and public policy formulation. There are veritable industries being set up, many of which are spawned by debates about the preventative agenda or the need for service integration. Whether it is academics or consultancies doing yet more measurement, evaluation and review or whether it is work within our public services or local and national Government, there is seemingly endless analysis and articulation of what needs to be done. That locks up not only millions of pounds but vast amounts of time and energy and cascades down to all levels as people get lost in interminable discussion about what needs to be done rather than doing it.”<sup>21</sup>

41. Set against this, the Committee was aware that for transparency and accountability some form of evaluation is desirable. For example, Professor David Bell said—

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<sup>18</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 510.

<sup>19</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 510.

<sup>20</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 405.

<sup>21</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 380.

“A practitioner thinks that a scheme is a good idea, introduces it for a small area, says it is good and writes an article on that basis, but, when we look at it in detail, we cannot prove that it would be effective if it was rolled out throughout the country...”<sup>22</sup>

42. The Cabinet Secretary for Health, Wellbeing and Cities Strategy said—

“If we think that something will work and there is plenty circumstantial evidence that it is the right thing to do, we should get on and do it, and the evidence will accrue over time...there is a balance to be struck.”<sup>23</sup>

43. While the Committee was attuned to the consensus around prioritising care in the early years of life, that does not mean every potential intervention in early years is effective or cost-effective, nor does it mean that everything proposed in the name of “early years” should be funded. Some sifting is required and that demands evidence. The Committee was made aware that evaluations could also be time-consuming, expensive and inconclusive, but Professor John McLaren summed up the position—

“[W]e have to use what little money we have in the best way we can. That is why we need to use the evidence base and to pilot these things to an extent. It will take a bit of time.”<sup>24</sup>

44. The second issue under this heading was regarding the switch of a project judged successful from temporary funding to permanent funding. The Committee heard this was an issue in oral evidence from the Royal College of Nursing—

“[T]he programmes are all very well in themselves but, as the committee has noted, if they do not turn into sustained ways of working beyond a period of time, we will not see the necessary change”<sup>25</sup>

45. When financial circumstances tighten, stopping such projects may be seen as a relatively easy way to make savings. As Theresa Fyffe of the RCN told the Committee—

“My worry is that the programmes do not become sustainable and end up like the money partnerships and alliances that we have had before, such as that involving Macmillan Cancer Support, where posts are funded but disappear when the funding ends instead of becoming true posts.”<sup>26</sup>

46. The Cabinet Secretary for Health, Wellbeing and Cities Strategy told the Committee—

“The £500 million and its component parts are very much seen as the first stage of a greater shift to prevention. We want that shift of resources into prevention to increase in future years. The more we spend on prevention, the more we will

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<sup>22</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 390.

<sup>23</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Cols 532-33.

<sup>24</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 403.

<sup>25</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 464.

<sup>26</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Cols 464-65.

save across the entire range of Government services in 10, 20, 30, 40 and 50 years' time."<sup>27</sup>

**47. The Committee's concern is that it is unclear how the transition to mainstream takes place. The Committee intends to pursue this issue with NHS boards when it returns to budget scrutiny in the first half of 2012.**

*What do we know about barriers to change when it comes to integration and prevention and do proposals such as the Change Fund address these?*

48. A variety of barriers to change were identified in evidence, including:

- short-termism
- inappropriate incentives
- fragmentation (winners and losers)
- the need to stop doing something to fund something else.

49. Enabling factors included:

- Leadership
- legislation
- focusing on 1-2 key indicators instead of lots of targets.

50. In the context of budget scrutiny, change funds were seen as an important enabler of change. For example, Professor Susan Deacon said—

“There is a need for elements of central resource that can help to drive and lever change. In my experience—as a politician and a practitioner and someone looking at these issues from an academic perspective—without such change funds, there will be a real difficulty because, even where people are committed to driving change, they just will not be able to get their hands on resource that will help them do so.”<sup>28</sup>

51. The Chief Medical Officer told the Committee—

“When Susan Deacon was speaking I thought back to when she was Minister for Health and Community Care and I was the lead clinician for cancer. In order to transform cancer care in Scotland, she kindly gave me £20 million over two years – or £25 million over three years. In terms of the total budget for cancer, that was a drop in the ocean, but we used it to leverage a whole load of changes around the system. A small amount of money at the margins can have a very powerful impact in changing the way that a system works.”<sup>29</sup>

52. He also said—

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<sup>27</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 512.

<sup>28</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 383.

<sup>29</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 409.

“The question is who gets the money to spend. If it goes into a health board’s budget, it might never emerge in any recognisable way....Giving money to the front line helps to leverage change.”<sup>30</sup>

53.Change funds allow limited periods of transition, so a new service is established before an existing one is withdrawn. Mr Bill Alexander, Director of Social Work at Highland Council told the Committee—

“[W]e have about £3.5 million from the change fund this year and next year in Highland. With that figure, we seek to achieve three times a return, so we seek to create £10.5 million. That sum will, first, continue the services that we are putting in just now; secondly, it will meet the demographic challenge of more older people in the future; and, thirdly, it will close our budget gap. We are using the money as a catalyst to save money down the line and to grow services. My understanding is that the same is envisaged for the early years change fund.”<sup>31</sup>

54.The Cabinet Secretary for Health, Wellbeing and Cities Strategy said—

“The change fund is not an end in itself – it is the bridge into the more integrated health and social care environment that we intend to reach.”<sup>32</sup>

**55.The Committee awaits with interest further information about how the change funds have been invested. It will return to this issue in future budget scrutiny.**

56.The Committee sees the role of the Third Sector as being of critical importance in the success of the Change Funds. Several witnesses spoke on this theme in their oral evidence. For example, Joan Wilson, Head of Nursing and Vulnerable Children and Families at NHS Tayside, said—

“I have been involved in progressing a Big Lottery bid locally with the third sector and as we have worked through how it can complement the work of professionals, the work has been quite amazing. We need to work on third sector involvement and to consider it seriously, because this is not just about highly paid professionals delivering care.”<sup>33</sup>

57.The concern is whether Third Sector involvement in decision-making was meaningful and whether bids from the Third Sector received an adequate hearing. For example, Bill Alexander told the Committee—

“That is not easy, because the third sector is not one person but a group of agencies of different sizes and with different interests representing a range of different stakeholders....This week, I will speak with about 100 representatives of third-sector organisations who will all want different things to happen with the £3.5 million I referred to earlier. As part of that, we must seek to achieve

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<sup>30</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 409.

<sup>31</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 446.

<sup>32</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 507.

<sup>33</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 461.

consensus alongside what we wish to do across NHS Highland and Highland Council. I would not say that that is easy.”<sup>34</sup>

58. The Cabinet Secretary for Health, Wellbeing and Cities Strategy said—

“We are striving to ensure that the voluntary sector is integrally involved at the early stage of deciding how the change fund money should be used, what the commissioning strategies are and what plans are put in place for the use of the change fund.”<sup>35</sup>

59. She added—

“I am conscious of the fact that it is the easiest thing in the world for me, as Cabinet Secretary for Health, Wellbeing and Cities Strategy, to say that the voluntary sector should be involved in something like this, but we need to ensure that it actually happens on the ground.”<sup>36</sup>

60. The Committee is firmly of the view that the third sector should play an integral role in decision making and utilisation of change fund monies.

61. The Committee intends to continue this scrutiny when it takes evidence from NHS boards in the first half of 2012.

62. The Committee also heard evidence regarding the ring-fencing of budgets for preventative spending. Several witnesses stated such funding had been an important enabler for their project, especially in tougher financial circumstances.

63. Melanie Hornett of NHS Lothian told the Committee—

“Having ring-fenced funding to set up pilot programmes such as keep well or family nurse partnerships allows us to establish and develop the work. The hard task is then to mainstream it.”<sup>37</sup>

64. Bill Alexander of Highland Council said—

“The problem with ring fencing in the past was that it just went crazy and there were too many separate ring-fenced streams. You could not deliver on a common objective because, as has already been pointed out, the two separate ring-fenced streams could not be joined up with the mainstream budgets. However, it is only sensible to have some protection for priority budgets.”<sup>38</sup>

65. The Cabinet Secretary for Health, Wellbeing and Cities Strategy suggested a “horses for courses” approach, telling the Committee—

“We ring fence only for a purpose. As I have just demonstrated with the example of the waiting times money, where we think that ring fencing is no longer the correct approach, we take a different approach. Generally speaking,

<sup>34</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 446.

<sup>35</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 509.

<sup>36</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 508.

<sup>37</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 448.

<sup>38</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 451.

there has been an attempt in the past couple of years to minimise the proportion of resource that we ring fence centrally and to put as much as possible into health boards' baseline budgets, to allow them greater flexibility. We have also taken an approach that we call bundling, whereby the totality of three, four or five individual ring-fenced budgets remains ring fenced, but there is greater flexibility to move money around within these budgets. The trend has been towards greater flexibility for health boards in the management of their total resource."<sup>39</sup>

66.The Committee considers that ring fencing can be appropriate in certain circumstances. A recent example is the ring fencing for carers of 20% of the change fund for older people.

67.Another issue the Committee heard in evidence, from Professor David Bell, concerned existing money in the system—

“One of the interesting things that the committee might want to examine is resource transfer from the health service to local authorities, which is about £350 million and bigger than the change fund. What is that money being used for and how effective is it? What efficiencies is that big chunk of money garnering within the health service?”<sup>40</sup>

68.This is a potential theme for the Committee to return to when evidence is taken from NHS boards in the first half of 2012.

*What health outcomes should we expect as a result of preventative spending?*

69.While budget scrutiny requires attention to the savings from preventative spending and integration, the Committee did not wish to lose sight of the outcomes for patients.

70.It therefore looked at two prevention-based projects in particular, the Family Nurse Partnerships and Keep Well. FNP is an intensive home visiting programme for vulnerable young mothers. The Scottish Government has described it as offering “intensive and structured home visiting, delivered by specially trained nurses, from early pregnancy until the child is two”. It aims to improve: pregnancy outcomes; child health and development; and, parents' economic self-sufficiency.<sup>41</sup>

71.Keep Well aims to increase the rate of health improvement in 40-64 year olds who are registered with participating GP practices from the most deprived areas. The aim is to identify those who are at particular risk of preventable, serious ill health, and offer health checks, screening and advice. The focus is on cardiovascular disease

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<sup>39</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 523.

<sup>40</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 397.

<sup>41</sup> Scottish Government website at: <http://www.scotland.gov.uk/Topics/Health/NHS-Scotland/nursing/ModernisingCommunityNursi/MNCBoardMeetings/FNP>

and its main risk factors, especially blood pressure, cholesterol, smoking and diabetes.<sup>42</sup>

72. The Committee found one dilemma is that it may be years into the future before outcomes can be counted; apart from the delay in making a decision, the problem is then whether the effects observed can actually be attributed to the preventative spending or whether it is due to one of the numerous other changes that have occurred in that time.

73. On the Keep Well project, John Howie said—

“...we are still some distance away from being able to conclude whether keep well has had any impact on those figures [for long-term morbidity and mortality].”<sup>43</sup>

74. The Committee was concerned that some preventative spending was on services which, while making an initial contact with people at risk of developing disease, did not always follow through to see that those people received the treatment they needed and hence could not be said to fully meet a definition of prevention.

75. John Howie from the Keep Well project told the Committee—

“Evaluation of the outcomes, including the patient outcomes, that the services have delivered has been limited.”<sup>44</sup>

76. The Committee was encouraged to hear from the Chief Medical Officer that especially for interventions in pregnancy and early years some short-term outcomes could be measured in a meaningful way—

“The single biggest avoidable cause of death in the first year of life is low birth weight, so if we see an increase in birth weight, within a year we will see a fall in infant mortality.”<sup>45</sup>

77. Rachel Ormston of the Scottish Centre for Social Research said of the Family Nurse Partnerships—

“I suppose that the question is how much evidence you need, and when, in order to make decisions. There is good evidence of impacts from the US. Early evaluation in England of the implementation of test sites suggests the potential for a lot of good impacts – for example, on mothers’ knowledge of health behaviours during pregnancy, early bonding and attachment”<sup>46</sup>

78. It was less clear whether equivalent ‘short-term’ outcomes were available for preventative spending in other age groups. The Committee repeatedly heard that it

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<sup>42</sup> Scottish Parliament Information Centre. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13: Health*. SPICe briefing 11/77. Available at: [http://www.vhscotland.org.uk/library/parliament/spic\\_20oct11.pdf](http://www.vhscotland.org.uk/library/parliament/spic_20oct11.pdf)

<sup>43</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 452.

<sup>44</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 458.

<sup>45</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 407.

<sup>46</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 439.

could take many years – some witnesses even spoke of generations – before outcomes would be seen from public health and health promotion schemes.

79. However, the Committee is concerned that for preventative projects in later life, the evaluations do not follow through to assess whether people identified as being at risk ever receive an effective treatment (including advice on lifestyle). Keep Well aims at identifying people in deprived communities at high-risk of developing illness, but the Committee heard limited data were available for evaluation on whether people identified stuck with the treatment. The situation, as set out by John Howie of NHS Health Scotland, was as follows—

“Generating data from follow-on services not only in the NHS, but within local government and the third sector, has been a significant challenge. Data management has been a significant challenge, and getting consistent data so that we can make firm comments on the effectiveness or otherwise of services has been a challenge. In many ways, we need to trust the logic in primary prevention. If we accept that the services are effective—they have shown that they have been—we would expect the same of level of care and support for the individuals who are coming through the keep well programme.”<sup>47</sup>

80. The Cabinet Secretary told the Committee—

“We can point to the fact that it has a proven track record in engaging people in deprived communities and to the referrals of people on to statins or smoking cessation services. We can also point to the evidence that those interventions have particular outcomes, but we would probably struggle to say that we have the evidence at this stage that keep well, in and of itself, directly delivers the benefits that we want. However, probably all of us feel strongly that implementing the programme is the right thing to do – I know that I do – and I think that the evidence on that will emerge.”<sup>48</sup>

81. The Committee looked at the Change Fund for older people’s services and for early years intervention. More thinking has been done about the Change Fund for older people and Mr Graeme Dickson, Director of Health and Social Care Integration at SGHD, reported six outcome measures had been agreed—

“The outcomes include decreasing emergency in-patient days for older people, increasing the percentage of people who live in housing rather than care homes, reducing delayed discharge and increasing the percentage of the last part of somebody’s life that they spend at home. The outcomes are fairly clear and have been agreed with most parties—that is the approach that we want to take. The sixth bit relates to the user and carer experience.”<sup>49</sup>

82. The Committee looks forward to receiving these data at the earliest opportunity in order to inform next year’s budget scrutiny.

83. Regarding early years, the Cabinet Secretary for Health, Wellbeing and Cities Strategy said—

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<sup>47</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 458.

<sup>48</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 532.

<sup>49</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 411.

“The early years and early intervention change fund is at an earlier stage of development than the older people’s services change fund. Governance, accountability and performance management in relation to the early years change fund are still being developed.”<sup>50</sup>

84. The Committee will want to consider that development at a later date.

*What savings should we expect as a result of preventative spending and the Change Funds?*

85. In moving from a reactive approach to a preventative emphasis, the Committee acknowledged that some form of transitional funding is required. Responding to a question about switching spending from teenagers to children, Bill Alexander of Highland Council said—

“[W]e cannot ignore and walk away from teenagers who have high-level needs. Without additional money, levering funding into preventative spend is a challenge, but I believe that that is what the various change funds that we are now looking at will involve. That is certainly what the change fund for reshaping the care of older people is about. The money cannot be used to plug the gap in existing services; it must be used as a catalyst to lever money from higher spending services, in particular acute hospital care, into preventative areas such as community-based care and intermediate services.”<sup>51</sup>

86. Mr Alexander stated his expectation that spending from the Change Fund would free up three times the level of resource. See also paragraph 54.<sup>52</sup>

87. Martin Woodrow of the BMA was less sanguine—

“There is an assumption that if we build in additional preventative services we will see an immediate gain, as we will be able to lose some of the more reactive services, but that is a brave assumption to make, because, given our ageing population, we will continue to need what we have.”<sup>53</sup>

88. When the Committee comes to take evidence from NHS boards in the Spring it will want to consider whether saving money in the long-term is a common assumption and, if so, to seek evidence on what level of resource has been released.

89. The Committee noted the Keep Well evaluation was planning an estimation of savings. It is important that these are realistic about what is likely to be cash-releasing savings and which will be time-releasing. John Howie said—

“It is a very complex financial modelling exercise, given that we are looking at the impact that interventions will have decades down the line.”<sup>54</sup>

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<sup>50</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 508.

<sup>51</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 445.

<sup>52</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 446.

<sup>53</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 474.

<sup>54</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 456.

90. Financial modelling is certainly not easy and there may be a case for SGHD to look at standardised methods for doing this and standardised ways to present the results for maximum transparency.

*What are the implications of Change Funds for the workforce?*

91. The final set of concerns was with regard to workforce planning and preventative services.

92. The Cabinet Secretary for Health, Wellbeing and Cities Strategy said—

“...workforce planning is not the easiest thing in the world. It is an art more than a science, but the more we get it right, the fewer problems of all sorts we will have later on.”<sup>55</sup>

93. An obvious concern for staff is the impact of change upon job numbers. The Committee heard from several witnesses representing staff that changes in the composition of the workforce and skills needed was regarded as inevitable. The RCN, for example, told the Committee—

“You are taking wards out, so naturally you are going to take out some staff. We understand that, but what we are not seeing is a corresponding shift over to the community and to the primary care service, which is where we are trying to get to. We are concerned. We are asking the boards, “At what point do you say that you have done what you can do in fixed staff costs? You cannot keep going.”<sup>56</sup>

94. However, for change to be accepted, good dialogue with staff representatives is required and the Committee heard some evidence this was not happening with respect to preventative spending. RCN said—

“Our workforce planning dialogue is with boards. I will be straight with you and say that I do not see good evidence of workforce planning in relation to preventative spend ... We are not getting workforce planning right for the preventative spending culture that the Government has stepped up to say that it needs.”<sup>57</sup>

95. The Cabinet Secretary for Health, Wellbeing and Cities Strategy told the Committee—

“I understand people’s anxieties and worries about an NHS workforce that is changing its size and shape, but much of what we have been talking about already are things that change how health services are delivered. I am thinking of more prevention, treating more people in the community and other developments such as the fact that we have the lowest average length of hospital stay and the highest day-case treatment rate ever. It is inevitable that those things change the shape and size of the NHS workforce. I have made it clear, and I will continue to make it clear, that those changes have to be linked to the quality redesigns of services. As the health secretary, I will continue to

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<sup>55</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 533.

<sup>56</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Col 469.

<sup>57</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 1 November 2011, Cols 462-63.

scrutinise very closely staffing levels and the mix of staffing levels in the health service.”<sup>58</sup>

## CONCLUSION

96. The Committee supports the concepts of prevention and integration. However, these raise a number of issues in the context of the scrutiny of the SSRDB document, and the Committee will want to return to these in future years to assess the progress that has been made.

**97. The Committee will wish to revisit the progress on preventative spending – including FNP and Keep Well, the success or otherwise of other preventative measures, how the Change Fund is being deployed and its impact on quality of care and value for money – more systematically over the course of the spending review, and for the duration of this Parliamentary session.**

98. The Committee notes the words of the Cabinet Secretary for Health, Wellbeing and Cities Strategy—

“I take every opportunity to hammer home the view that efficiency and quality go hand in hand – they are each other’s best friend. That is one of the key guiding principles that will get us through the difficult financial times.”<sup>59</sup>

99. A more general issue is a concern that the budget document continues to cover national spending on health in detail but does not give detail on how health boards will use over £8 billion. Professor David Bell, adviser to the Finance Committee, said—

“It seems to me that much of this is about the failure to properly inform the Parliament and the people of Scotland about how £10 billion or £11 billion is really being spent.”<sup>60</sup>

100. The Committee will seek to address this by holding evidence sessions with NHS boards when their plans are available, and by discussion with SGHD about supplementary information that will be required in scrutinising next year’s budget. The Committee brings these matters to the Finance Committee’s attention as part of its consideration of the format and content of the SSRDB document.

101. The Committee notes the statement from the Cabinet Secretary for Health, Wellbeing and Cities Strategy that—

“...the overarching responsibility on health boards, beyond meeting particular yearly targets for efficiency savings, is to be as efficient in the delivery of healthcare services as possible. That is an on-going requirement, and my officials and I will scrutinise carefully health boards’ performance against it. We

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<sup>58</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Col 527.

<sup>59</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 8 November 2011, Cols 523-24.

<sup>60</sup> Scottish Parliament Health and Sport Committee. *Official Report*, 25 October 2011, Col 387.

will ensure that the Committee has any information that it needs to perform that scrutiny role, too.”<sup>61</sup>

102. The Committee welcomes that spirit of co-operation.

103. The settlement for Health and Sport has been generous: it is beholden on all involved in these two sectors to demonstrate that in return they have placed quality and efficiency at the heart of their thinking.

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<sup>61</sup> Scottish Parliament Health and Sport Committee. *Official Report, 8 November 2011*, Cols 500-01.

## **EXTRACTS FROM THE MINUTES OF THE HEALTH AND SPORT COMMITTEE**

### **8th Meeting, 2011 (Session 4), Tuesday 25 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Professor John McLaren, Economist, Centre for Public Policy for Regions;  
Professor David Bell, Professor of Economics, University of Stirling;  
Dr Roger Gibbins, Independent Coach and Consultant, Kerve Coaching and Consultancy, Member of Christie Commission and former CEO NHS Highland;  
Professor Susan Deacon, Honorary Professor, School of Social and Political Science, University of Edinburgh;  
Sir Harry Burns, Chief Medical Officer, and Graeme Dickson, Director of Health and Social Care Integration, Scottish Government.

### **9th Meeting, 2011 (Session 4), Tuesday 1 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Bill Alexander, Director of Social Work, Highland Council;  
Melanie Hornett, Nurse Director, NHS Lothian;  
John Howie, Health Improvement Programme Manager – Keep Well, NHS Health Scotland;  
Gail Trotter, Family Nurse Partnership (FNP) National Implementation Lead, Child and Maternal Health, Scottish Government;  
Joan Wilson, Head of Nursing & Vulnerable Children/Families, NHS Tayside;  
Rachel Ormston, Research Director, Scottish Centre for Social Research;  
Martin Woodrow, Scottish Secretary, British Medical Association Scotland;  
Theresa Fyffe, Director, Royal College of Nursing Scotland;  
Matt McLaughlin, Regional Organiser, NHS Greater Glasgow & Clyde branch, UNISON.

### **10th Meeting, 2011 (Session 4), Tuesday 8 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Nicola Sturgeon MSP, Cabinet Secretary for Health, Wellbeing and Cities Strategy, Derek Feeley, Director General Health & Social Care and Chief Executive of NHS Scotland, and John Matheson, Director of Health Finance and Information, Scottish Government.



The Scottish Parliament  
Pàrlamaid na h-Alba

## **Infrastructure and Capital Investment Committee**

### **Report on the Scottish Government Draft Budget 2012-13 and Spending Review 2011**

The Committee reports to the Finance Committee as follows—

#### INTRODUCTION

1. The draft budget 2012-13 was published by the Scottish Government on 21 September 2011. The budget was accompanied by the spending review 2011, which included the Government's spending proposals through to 2014-15.
2. The role of the Infrastructure and Capital Investment Committee is to consider the Government's spending proposals outlined in the budget documents and report to the Finance Committee.
3. The Committee agreed to focus its budget scrutiny on the Government's spending proposals for transport. In recognition of its broad-ranging remit, the Committee took a more general view of the spending plans as they relate to the other aspects of its remit.
4. The Finance Committee prepared guidance to subject committees on the budget process. The guidance draws in large part on the Finance Committee's report on preventative spending<sup>1</sup>, and invites subject committees to scrutinise the Government's progress in moving towards a more preventative approach to public spending.
5. The Committee notes the statement in the foreword to the Draft Budget 2012-13 and Spending Review 2011 that the development of the Scottish Government's spending plans "has been undertaken in the context of the most dramatic reduction in public spending ever imposed on Scotland by the UK Government."

#### **Level of transparency in the Government's spending proposals**

6. In order to assist its scrutiny, the Committee requested a detailed breakdown of expenditure across the Infrastructure and Capital Investment portfolio. The Cabinet Secretary for Infrastructure and Capital Investment (the "Cabinet Secretary") provided this Level 4 data, which is included at the end of the report. The Committee is grateful to the Cabinet Secretary for this data, which has assisted in its scrutiny of the various elements of the portfolio.

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<sup>1</sup> Finance Committee 1st Report, 2011 (Session 3), Preventative Spending (SP Paper 555):  
<http://www.scottish.parliament.uk/s3/committees/finance/reports-11/fir11-01.htm>.

7. However, the Committee is disappointed about the lack of transparency in other parts of the budget. This has hindered the ability of the Committee and witnesses to properly scrutinise the Government's spending plans.

8. In particular, the Committee sought details of the Government's proposed transfer of £750m from revenue to capital expenditure. At its meeting on 9 November, the Cabinet Secretary for Infrastructure and Capital Investment gave a commitment to provide the Committee with a table showing a breakdown, by portfolio, of which revenue lines will be cut and which capital lines the money will be transferred to. However, data explaining this substantial cost transfer had not been received by the time this report was considered by the Committee. This is discussed later in the report, at paragraphs 50-53, where the Committee recommends that the Finance Committee raises the issue of the lack of transparency of the spending figures, particularly relating to the resource to capital transfer, with the Scottish Government.

9. The Committee is also disappointed with the lack of clarity in the draft budget document, noting that the spending plans for some key budget lines was – in places – opaque. For example, Professor Tom Rye stated that—

“I found certain aspects around sustainable transport difficult to unravel. In particular, what is happening to the cycling, walking and safer streets fund is not clear.”<sup>2</sup>

10. The Committee has also experienced difficulty in obtaining a full and clear picture from the available information on the adequacy of funding to deliver on affordable housing over the spending review period. This is addressed more fully at paragraphs 97-117.

11. The Committee would like to commend the Cabinet Secretary for bringing clarity and transparency to certain parts of the Committee's budget scrutiny whilst giving oral evidence. The Committee calls on the Scottish Government to consider how it might bring similar clarity to future budget documents.

## **Evidence**

12. In the course of its scrutiny, the Committee took oral evidence from a range of stakeholders and then from the Cabinet Secretary for Infrastructure and Capital Investment. A list of those who gave evidence is included at the end of the report.

13. The Committee also issued a call for written evidence on the draft budget and spending review, and received 47 responses. The responses are available on the Parliament's website.<sup>3</sup> A list of those who made a submission to the Committee is included at the end of the report.

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<sup>2</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 173.

<sup>3</sup> Written evidence is available at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

## Adviser

14. The Committee agreed to appoint an adviser to assist it in its budget scrutiny. Professor David Gray, from Robert Gordon University, provided the Committee with expert analysis of evidence received and technical expertise during the course of its budget scrutiny in relation to transport matters.

## TRANSPORT

15. The Committee acknowledges the challenges facing the Scottish Government in the current financial climate, particularly the squeeze on capital spending at a time when the commitment to invest in the Forth Replacement Crossing is dominating capital spending.

16. The Committee also acknowledges that, during a period of budgetary austerity, the Infrastructure and Capital Investment budget has been spared the cuts endured by other budget areas and that levels spending on transport and infrastructure have actually risen.

17. This position has been acknowledged by witnesses in evidence. For example, Eric Guthrie from TACTRAN observed that—

“As a body, we recognise the difficult financial environment within which the Scottish Government has prepared the budget. We also recognise and welcome the fact that overall funding for transport and infrastructure has increased in the draft budget.”<sup>4</sup>

18. Valerie Davidson from SPT suggested that—

“SPT recognises that the budget has been set under difficult financial constraints. We welcome the principles that are at its core and the contribution of specific capital funding.”<sup>5</sup>

19. The Committee acknowledges the Cabinet’s Secretary’s confidence in the ability of investment in transport capital projects to underpin economic growth in Scotland. He said—

“There is no doubt in my mind that investment in infrastructure—and investment in transport in particular—acts as a stimulant to economic growth. Academic evidence has demonstrated that every 1 per cent of gross domestic product invested in infrastructure can generate an additional 0.3 per cent of economic growth per annum... Other figures show that, on average, capital spending has two to three times the multiplier impact on the economy, jobs and investment as resource spending.

“A number of fairly recent examples have proved to me that without capital investment in transport our economy would be much weaker. For example, if we

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<sup>4</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 247.

<sup>5</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 247.

did not have a plan for a Forth replacement crossing...the impact, particularly on the economy of the east coast, would be very severe indeed.”<sup>6</sup>

20. In qualifying this view, however, the Committee notes that expert witnesses were divided over whether there was a direct relationship between investment in large transport capital infrastructure schemes and economic growth. Professor Tom Rye suggested that—

“You can find a lot of evidence that investing in specific pieces of transport infrastructure will move economic activity around, but trying to find evidence that it will grow the economy overall is really difficult”<sup>7</sup>

21. Professor Iain Docherty put forward a similar view, and stated that—

“It depends on your objectives; if you want to create employment, there are many ways to do that and investing in transport infrastructure is by no means a bad one. If, however, you expect such investment to be the magic bullet that will transform economic performance, I am afraid that it will not do that.”<sup>8</sup>

22. Conversely, other witnesses argued that there was a closer link between large transport capital infrastructure schemes and economic growth. Dave Duthie from HITRANS suggested that—

“...if the A90 had not been dualled up to Aberdeen, Aberdeen would not have become what it is now. If the A9 had not been improved up to Inverness, would Inverness be what it is now? ...would [those centres] have developed as they have done anyway? I do not think that they would have done.”<sup>9</sup>

23. Similarly, David Lonsdale of the CBI stated that—

“...the CBI at a UK level carried out a study a couple of years ago with a contractors group that found that there is a direct correlation between every pound spent on transport infrastructure and just short of £3 in GDP.”<sup>10</sup>

24. Nevertheless, the Committee is confident that the schemes set out in the budget will lead to increased employment in the short to medium term and will facilitate economic growth in Scotland in the long term.

25. The Committee also endorses the Cabinet Secretary’s view that the economic multipliers from investing in capital schemes are in the order of two to three times those of investment in revenue lines.

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<sup>6</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 302.

<sup>7</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 166.

<sup>8</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 168.

<sup>9</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 260.

<sup>10</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Cols 272-273.

**26. The Committee welcomes the Cabinet Secretary's offer to share some examples of post-project appraisal with the Committee. The Committee also expresses a wish that, in future, such appraisals should be more widely and systematically available.**

#### **Financing methods: NPD and RAB**

27. The Committee welcomes the use of Non Profit Distribution (NPD) and Network Rail Asset Based (RAB) Finance to fund transport infrastructure schemes. This capital investment in the transport was also welcomed by a majority of those giving evidence to the Committee. For example, Amy Dalrymple of the Scottish Chambers of Commerce welcomed the redirection of revenue spending to capital spend, and stated that—

“Investing in infrastructure is one of the biggest things that the Government can do to help the economic recovery in Scotland.”<sup>11</sup>

28. Gareth Williams of the Scottish Council for Development and Industry (SCDI) suggested that—

“We believe that the economic challenges that are faced by Scotland are such that infrastructure investment should have an even higher priority at this time. We welcome the steps that have been taken in the budget to reflect that position.”<sup>12</sup>

29. The use of these mechanisms was welcomed by most witnesses, although some caution was expressed about the attractiveness of NPD to the private sector. The use of RAB was also welcomed – although it was acknowledged that schemes funded under this mechanism had to be regarded by Network Rail as strategic to the UK. According to SCDI—

“The jury is still out on the NPD model. We are still looking for clarity on exactly how it will operate in relation to transport. On Network Rail's RAB, we have to be conscious in Scotland that that is a UK borrowing mechanism. The projects that we want to use it to fund must have a good business case relative not just to projects that we might look at in Scotland but to projects in the UK as a whole.”<sup>13</sup>

30. The difficulties surrounding NPD and the Borders rail tender appear to the Committee to be unique to that project rather than an inherent problem with this method of funding.

31. The Committee also notes the Cabinet's Secretary's point that NPD and RAB are not appropriate (in terms of the value for money offered) for schemes of less than £30m.

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<sup>11</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 271.

<sup>12</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 272.

<sup>13</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 275.

32. The Committee welcomes the Cabinet Secretary's clarification on the repayment rules on such capital borrowing – that “the repayment profile of our investments should not exceed in any one year 5 per cent of the Total Managed Expenditure.”<sup>14</sup>

33. The Committee notes that PFI repayments rise from £58.0 million per annum in 2011-12 to 84.7 million per annum in 2014-15.

34. The Committee also observes that while the cost of new projects will largely be borne (following completion of the projects) in the next and subsequent Spending Reviews. The Committee also notes the Cabinet Secretary's observation that the repayments will peak at 4.7% of the Departmental Expenditure Limit in 2016-17.<sup>15</sup>

**35. The Committee is, therefore, concerned that borrowing repayments are likely to be a burden on revenue lines on subsequent Spending Reviews and is keen to seek assurances that this does not impact on future revenue settlements for local authorities or Regional Transport Partnerships.** These concerns were also articulated in evidence given by expert witnesses where, for example, Professor Iain Docherty stated—

“In the roads budget, it is interesting to consider the continuing impact of PFI payments. They last for a significant time, and they are gobbling up an increasing share of the budget. That those decisions have long-term implications is often forgotten.”<sup>16</sup>

#### **Maintaining asset base and preventative spend**

36. The Committee considers that in pursuing the Government's commitment to preventative spending, it is important to maintain the existing asset base and strike the correct balance between investing in new capital infrastructure and investment in the maintenance of current assets. SPT suggested that—

“...it is about maintaining what we have. When we talk about capital investment, we discuss big projects, but it is important to ensure that we also maintain Scotland's asset base. While we put lots of money into what I call shiny new buttons, we must ensure that the things that we have already invested in are maintained and enhanced. Otherwise, a huge amount of money will have to go in to tackle backlogs and do patching at a later date.”<sup>17</sup>

“It is acknowledged as good business practice to maintain one's existing asset base as the utmost priority before expanding that asset base. We have therefore for some time been puzzled by the insistence that funds be made available for

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<sup>14</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 305.

<sup>15</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 305.

<sup>16</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 182.

<sup>17</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 260.

major new transport infrastructure projects when it is often the case that funds are not available for maintaining the existing asset base”.<sup>18</sup>

37. Towards this aim, the Committee acknowledges the Cabinet Secretary’s view that the resources for trunk road maintenance spend have been maintained in the budget. The Cabinet Secretary stated that—

“The Auditor General for Scotland has produced a number of reports on the importance of maintenance, and we agree with him that maintenance is extremely important. If we do not maintain infrastructure to a certain level, that can cost even more money in the future; for example, major repairs may have to be undertaken because a road has not been properly maintained.

“That is why, in the three-year comprehensive spending review transport budget, we have maintained our expenditure and our commitment to maintenance. Despite the cuts elsewhere, there has been no further reduction in the maintenance budget.”<sup>19</sup>

38. Nevertheless, the Committee notes the point made in the recent National Roads Maintenance Review that if maintenance budgets were to be cut by 20% on trunk and local roads, the cost of doing so (in Net Present Value terms) is nearly five times worse on local roads than on trunk roads.<sup>20</sup> The report also confirms that local authorities have identified a £1.54bn backlog.<sup>21</sup> Concerns about the local road maintenance backlog were shared by Professor Rye, who suggested that—

“On prevention...I talked about the balance between trunk roads maintenance and local roads maintenance. The issue has not been fully addressed, but it should be, because there are grounds for believing that not enough money is being spent on local roads maintenance and too much is being spent on trunk roads maintenance, given that most trips are short and use local roads rather than trunk roads. Have the local authorities got enough money to do their preventative local roads maintenance? Perhaps they need more and Transport Scotland needs a bit less.”<sup>22</sup>

39. Similarly, Keith Irving, from Living Streets Scotland, considered that—

“The trunk road maintenance budget has gone up in the draft budget and we know that local authorities are reporting that their local maintenance budgets will go down—quite significantly, in some cases. We have identified that as a reprioritisation issue. Obviously, resources are extremely tight but, in terms of the

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<sup>18</sup> Written evidence is available at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>

<sup>19</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 303.

<sup>20</sup> National Roads Maintenance Review, Transport Scotland, October 2011, see Table 1, section 2.2.

<sup>21</sup> National Roads Maintenance Review, Transport Scotland, October 2011, see section 1.1: this figure does not include bridges and other assets such as lighting.

<sup>22</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 175.

priorities that the Government has identified, local authority maintenance budgets are under pressure and need greater support than they are currently receiving.”<sup>23</sup>

40. The Committee also notes that the 2012-13 budgets for trunk road routine and winter maintenance and roads improvement is £87.7m, while an additional £57m is budgeted for structural repairs and network strengthening and improvement.

41. The Committee welcomes the commitment in the draft budget to “maximise value in the routine and winter maintenance budgets by identifying savings in the work delivered by Trunk Road Operating Companies.”<sup>24</sup>

### **Other capital projects and the Strategic Transport Projects Review**

42. The Committee welcomes the Cabinet Secretary’s acknowledgment of the value for money offered by smaller capital schemes and the fact that Scottish companies are invariably the contractors on such projects. This view was also shared by Eric Guthrie from TACTRAN—

“we would like to see greater prioritisation being given to what I refer to as quick-win smaller projects, which I believe would still have significant benefits in achieving our climate change objectives and the economic objectives.”<sup>25</sup>

43. Professor Docherty agreed and suggested that there was a discussion to be had about the roads budget—

“in respect of whether we are funding the right scale of project or whether we should move towards smaller shovel-ready projects, such as junction improvements, that tend to make a bigger difference in safety and journey times for the local communities. That is something that the Eddington transport study strongly emphasised to the Treasury a few years ago.”<sup>26</sup>

44. While acknowledging the current financial climate in regards to capital funding, the Committee welcomes the Cabinet Secretary’s commitment to such schemes if and when capital funds become available.

45. The Committee also welcomes the Cabinet Secretary’s reassurances that there is a pipeline of ‘shovel ready’ small capital schemes and that there is no slowing down in the process of bringing these schemes to ‘shovel readiness’.

46. The Committee also notes that the Cabinet Secretary is planning a refresh of the Strategic Transport Projects Review – which will set out Scotland’s Transport Priorities for the next 20 years – and that this report will be published in 2012.

47. A number of witnesses agreed that the STPR would benefit from being updated. For example, SCDI’s view was that—

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<sup>23</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 2 November 2011*, Col 290.

<sup>24</sup> Scottish Government Draft Budget 2012-13 and Spending Review 2011, p.119.

<sup>25</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 2 November 2011*, Col 257.

<sup>26</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 5 October 2011*, Col 169.

“To an extent, the budget is still dealing with some projects that pre-date the STPR... We were broadly supportive of the projects in the STPR, and we think that it might be time to look at it again.”<sup>27</sup>

48. TACTRAN indicated support for EGIP and the forth crossing, but suggested that the STPR should include planning for a broader programme.<sup>28</sup>

49. The Committee would welcome the opportunity to scrutinise and take evidence on the proposals set out in the refreshed STPR in due course.

### **Transfer from revenue to capital**

50. As part of the spending review, the Scottish Government has announced that it plans to offset some of the reduction in the capital budget by transferring £750m from resource expenditure to the capital programme over the period until 2014-15.<sup>29</sup>

51. In giving evidence to the Committee, the Cabinet Secretary provided some details on which portfolios the planned resource to capital transfer would impact and to what extent. The Cabinet Secretary stated that—

“I have a table that shows precisely where the move from resource to capital will be. In 2012-13, £206.4 million will be moved, in 2013-14, the figure will be £242.5 million, and in 2014-15, it will be £270 million. We will circulate the table, which gives more detail, to the committee later today. It will allow you to see which budgets involve a move from resource to capital. The figures for health are £95 million, £105 million and £120 million.”<sup>30</sup>

52. At the time of agreeing this report, the table to which the Cabinet Secretary referred is yet to be received. The Committee has made several requests to the Cabinet Secretary for the data, but has been unable to obtain the information. This has meant that the Committee has been unable to consider or take evidence from witnesses about these spending plans and this, as a result, has impacted on the Committee’s ability to scrutinise the budget in a meaningful and effective manner.

**53. The Committee recommends that the Finance Committee raises the issue of the lack of transparency of the spending figures, particularly relating to the resource to capital transfer, with the Scottish Government.**

### **Future Transport Fund**

54. The Committee welcomes the clarity which the Cabinet’s Secretary brought to discussions of the nature and the funding underpinning the Future Transport Fund. The Committee notes that the £50m fund has been identified through £250m savings made in the cost of the replacement Forth Crossing contract.

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<sup>27</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 276.

<sup>28</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 255.

<sup>29</sup> Scottish Parliament debate on Strategic Spending Review. *Official Report*, 21 September 2011, John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth.

<sup>30</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 315.

55. In administering this £50m, the Committee notes the Cabinet Secretary's confirmation that the Warm Homes Fund will constitute 50% of the Scottish Futures Fund (SFF). This, therefore, suggests that the Future Transport Fund (the other element of the SFF) will constitute the remainder: 2012-13: £3.25m; 2013-14: £7.75m; and 2014-15: £18.75m.<sup>31</sup>

56. The Committee also acknowledges that the Cabinet Secretary has yet to decide how to allocate this money and welcomes his offer to work with the Committee in deciding how to spend this resource.

### **Low carbon Scotland Active travel and preventative spend**

57. The Committee is concerned about the ability of the Draft Budget to deliver on—

- Low Carbon Scotland: Meeting the Emissions Reductions Targets 2012-2022. Report on Proposals and Policies
- The Cycling Action Plan for Scotland (CAPS)
- The National Performance Framework

58. These concerns were shared by a number of organisations that provide written and oral evidence to the Committee. For example, Stop Climate Chaos Scotland considered that—

“The draft budget fails to fund even the Scottish Government's own plans to meet the legally-binding climate change targets which are set in the Climate Change (Scotland) Act 2009. Without this minimum level of investment, Scottish Ministers cannot realistically deliver the RPP and therefore meet those targets. In short, the budget fails to enable the requirements of the Act to be met. Scotland's world-leading climate legislation counts for little if the necessary action does not follow. In its current form, this budget puts us on a path for embarrassing failure.”<sup>32</sup>

59. Sustrans confirmed the point made in its written evidence and suggested that—

“under the draft budget, the cycling action plan cannot be delivered, so that element of the RPP needs to be revised or removed, because without capital investment in infrastructure to develop cycling, the cycling action plan is finished.”<sup>33</sup>

60. Similarly, Transform Scotland suggested that—

“...we would expect this Draft Budget to adversely affect the prospects for meeting the National Performance Framework – National Indicators' for transport of —Reducing the proportion of driver journeys delayed due to traffic

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<sup>31</sup> Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 November 2011, Col 511.

<sup>32</sup> Written evidence from Stop Climate Chaos Scotland: <http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>33</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 287.

congestion and —Increasing the proportion of journeys to work made by public or active travel.”<sup>34</sup>

61. While accepting and welcoming the Cabinet Secretary’s assertion that the Government is attempting to mainstream action on climate change across all portfolio areas rather than rely on individual projects and schemes in isolation, the Committee shares the view that the draft budget is not sufficiently aligned with these important objectives.

62. In particular, the Transport Committee, in its various guises, and under Governments of all political persuasion have a long standing commitment to active travel and – in particular – to cycling. The Committee notes that spending on cycling is highly preventative and contributes to health outcomes as well as congestion and climate change, and that investment in cycling and walking schemes often offers excellent value for money. According to David Connolly of MVA Consultancy—

“The budget does not draw out the benefits of increasing walking and cycling, particularly among young people, and establishing a culture of walking and cycling first and then using public transport. That is the biggest preventative investment that could be made, but the snag is that it will take time before the effects show up. Anything that increases walking and cycling should be encouraged, to prevent future ill health, obesity and other down sides that are related to lack of exercise.”<sup>35</sup>

63. The Committee is, therefore, concerned by the evidence presented by expert witnesses and by the Cabinet Secretary’s own confirmation that funding for active travel has been reduced in the draft budget. The Committee also acknowledges the written evidence from Spokes, which indicates that the estimated proportion of the draft budget devoted to cycling and walking has fallen from a modest 0.97% to 0.74%.<sup>36</sup>

64. In written evidence, Transform Scotland suggested that—

“The Spending Review sets out large increases for spending on new, polluting road-building at the expense of the most sustainable modes. While the large trunk roads budget sees a further increase of 25%, the already modest budget for sustainable and active travel has been cut by 25%.”<sup>37</sup>

65. Ian Aitken, from Cycling Scotland, commented that—

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<sup>34</sup> Written evidence from Transform Scotland:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>35</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 174.

<sup>36</sup> Written evidence from Spokes:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>37</sup> Written evidence from Transform Scotland:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

“The active travel line for this financial year is about 1 per cent of the transportation budget, as estimated by Spokes, and that will drop down to about 0.8 per cent in the draft budget. It is not a large sum of money.”<sup>38</sup>

66. Spokes have estimated that the budget for active travel investment will fall from £17.5 million in 2011/12 to £14m in 2012-13. This is based on the assumption that £1million for the cycling and walking will be allocated in the Future Transport Fund, that funding for CWSS will be cut by £1.5 million and that the £2 million allocated to trunk-road cycling facilities will be maintained.

67. As noted above, the Committee welcomes the Cabinet Secretary’s offer to explore with the Committee how to use the £50m Future Transport Fund. As a first step, the Committee recommends that the Cabinet Secretary earmarks part of this resource to increase funding for active travel/cycling back up to 2009/10 levels. This should equate to approximately £3.5 million per annum for the three years of the spending review period, and assumes that ring fenced CWSS funding for local authorities is maintained at current levels in the settlement in local authorities in December.

**68. The Committee recommends that the fund should be focused on capital projects that provide high economic return and which demonstrably contribute to Scotland’s ability to address the 10% cycling modal share target. The Committee suggests that Transport Scotland should liaise with Cycling Scotland, Sustrans and Living Streets Scotland to determine the precise nature and administration of this resource.**

**69. The Committee also recommends that the Scottish Government should give consideration to setting the active travel budget as a proportion of total transport spending.**

70. A number of expert witnesses have stressed the ongoing success and continued importance of the Cycling Walking and Safer Streets in Scotland’s ability to meet its 10% cycling target. Cycling Scotland suggested that—

“...if the capital funding in the cycling, walking and safer streets budget, which is under negotiation between the Scottish Government and COSLA, does not remain in place, it will not be possible to achieve the CAPS vision, because there will not be any capital spend available to develop cycling infrastructure in local authority areas.”<sup>39</sup>

71. In written evidence, Transform Scotland indicated that—

“[The CWSS fund] ...has proved essential in allowing Sustrans Scotland to receive match-funding from local authorities for delivery of cycle infrastructure. Should ring fencing be removed from fund, or its scale reduced, then we would see no prospect of delivery of the targets contained in the Government’s Cycling Action Plan for Scotland.”<sup>40</sup>

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<sup>38</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 291.

<sup>39</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 288.

<sup>40</sup> Written evidence from Transform Scotland:

72. Consequently, the Committee is also seeking reassurances about the CWSS funding for local authorities. **The Committee therefore recommends that the Cabinet Secretary seeks to maintain CWSS funding at the current level of £7.5 million per annum and ensures that the fund continues to be ring fenced. Similarly, the Committee recommends that the £2m funding for trunk-road cycling facilities is maintained.**

73. In progressing these recommendations, the Committee would also welcome greater clarity within the transport budget on the levels of funding for active travel. The Committee notes that the best estimate of levels of funding for active travel is provided by Spokes, the cycling charity, and recommends creating a separate budget line for active travel within the transport budget, or even creating respective budget lines for cycling and for walking and safer streets.

### Freight Funding

74. A number of witnesses have expressed concern about the future of the Freight Facilities Grant. For example, the Rail Freight Group considered that—

“In the Scottish Governments draft budget for 2012-13, there is no identified budget for the FFG scheme which over the last 36 years has provided capital grants to encourage freight modal shift from road to rail (and more recently, sea) transport [...] On the evidence currently available, there is no obvious or adequately funded grant mechanism for achieving freight modal shift in line with policy objectives for sustainable economic development, climate change, environmental protection and road safety.”<sup>41</sup>

75. Similarly, CBI Scotland commented—

“Support for the freight industry is set to reduce from £2.9m to £1.1m according to the budget document. We understand that this reflects a decision to end the Freight Facilities Grant which is disappointing and could undermine the effort to encourage firms to undertake a modal shift in freight transport from road to rail or water.”<sup>42</sup>

76. The Committee notes the evidence from the Cabinet Secretary and his officials which suggested that the reduction in the support for the freight industry in the budget has been driven by the low numbers of applications rather than any lack of appetite for the scheme. Sharon Fairweather of the Scottish Government said—

“We have awarded 34 freight grants. About £65 million has been allocated in Scotland, which is having a significant impact. As Alex Neil said, we have not had enough applications in recent years to enable us to spend the budget. We will look to use some of the new Scottish Futures Fund so that we can continue to

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<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>41</sup> Written evidence from Rail Freight Group:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>42</sup> Written evidence from CBI Scotland:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

invest in the area. We continue to work with the freight industry in a number of ways to support the move to rail.”<sup>43</sup>

77.The Committee welcomes and endorses the Cabinet Secretary’s ongoing commitment to modal shift through this scheme.

### **Funding for bus travel**

78.The Committee has noted that the budget for concessionary fares is set to rise at a time when other revenue lines are facing a reduction. A number of witnesses have argued that, while extremely popular, the national concessionary travel scheme is not sustainable in its current form in the long term. For example, Eric Guthrie of TACTRANS suggested that:

“There is a question about whether the concessionary travel scheme is sustainable. The budget caps the amount of funding over the three years of the spending review, which in real terms is a reduction, because of the inflationary costs that the bus industry will undoubtedly encounter during that period. Through time, demographic changes will put significant pressure on the budget.”<sup>44</sup>

79.Without in any way seeking to alter existing entitlement criteria for the concessionary travel scheme, the Committee would like Transport Scotland, on behalf of the Government, to explore possible mechanisms for capturing efficiencies and savings that could potentially be used to maintain future spending on other revenue lines.

**80.The Committee notes the Cabinet Secretary’s commitment to the Concessionary Fares scheme and welcomes the forthcoming review of the bus industry in Scotland which will address concessionary fares, support for Demand Responsive Transport and Bus Service Operators Grant (including a linking of this subsidy to climate change objectives). The Committee would welcome the opportunity to monitor this exercise in due course.**

### **The rail industry**

81.The Committee notes that the railways in Scotland command a significant proportion of transport spending. Although rail is important for connectivity, both within Scotland and externally, expert witnesses are of the view that the railways are over funded. David Connolly of MVA Consultancy stated that—

“In terms of the number of passengers who use it daily and the number of passenger kilometres, the system is massively overfunded by the Scottish Government and taxpayers’ money. The funding is out of step with use, which affects the impact that it has and the benefits that the sector can bring to the economy and elsewhere.”<sup>45</sup>

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<sup>43</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 9 November 2011*, Col 312.

<sup>44</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 2 November 2011*, Col 262.

<sup>45</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 5 October 2011*, Col 171.

82. The evidence suggests that there are too many interfaces between organisations (including those that are required to make a profit). The Committee acknowledges that the Scottish Government can do little to change the structure of the rail industry in Scotland. It notes, however, that the Minister for Transport and Housing launched the Rail 2014 consultation on 14 November 2011 asking for views on the shape of Scotland's rail passenger services under the future franchise from 2014. The Committee plans to consider what scope exists to improve efficiencies within the railway network in Scotland as part of this exercise.

**83. The Committee acknowledges that some progress has been made in managing rail industry costs, but would encourage Transport Scotland to continue to seek efficiencies and savings (to safeguard future transport spend in other areas) potentially during the next refranchising exercise.** Professor Iain Docherty suggested that—

“...we are still spending 30 per cent too much on our railway in comparison with European benchmark countries. That is a lot of money from the annual budget that we could save. We must ask whether we are content to let the industry continue to be more or less 30 per cent inefficient over the lifetime of the budget, and consider what else we could spend the money on.”<sup>46</sup>

#### **Efficiencies from expensive budget lines to safeguard spending**

84. As noted above, the Committee is keen to safeguard spending which contributes to important strategic priorities such as RPP and the cycling action plan, particularly through smaller shovel ready capital schemes. The Committee has identified three expensive spending lines where even relatively modest efficiencies could substantially increase the available resource and used to underpin low carbon and active travel. Specifically:

- from the Government's investment in the rail industry, during refranchising, for example;
- from more efficient management of operation of the concessionary fares scheme; or
- from trimming the trunk road maintenance budget.

85. The Committee requests that the Scottish Government give consideration to these suggestions.

#### **Ferries**

86. In scrutinising the budget, the Committee has noted the relatively high age of the CMAL fleet and the limited amount of capital funding available to replace vessels. Dave Duthie from HITRANS suggested that the issue of vessel replacement was of concern:

“The average age of the vessels in the fleet at the moment is 29, and it is generally accepted that 35 years is the longest a ferry should be kept running because the costs of maintenance become disproportionate after that. That will

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<sup>46</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 5 October 2011, Col 171.

be a significant challenge, and nothing in the budget indicates how that challenge will be met out of capital funding.”<sup>47</sup>

87. The Cabinet Secretary acknowledged the concerns about the age of the ferry fleet and commented that—

“we are in detailed discussions with CMAL and others on how to make progress. Ideally, I would like a major investment programme over the next five to 10 years to renew the ferry fleet. However, at the moment money is very limited.”<sup>48</sup>

**88. The Committee welcomes the Cabinet Secretary’s recognition of the age of the fleet and with aspiration to renew ageing vessels as soon as possible. However, whilst the Committee also recognises that in the current financial climate, and without additional borrowing powers, this will be particularly challenging, it is of the view that a strategy for addressing this issue must be identified. The Committee hopes that clarity on the Scottish Government’s thinking on how this matter will be addressed will be provided when the outcome of the ferries review is announced by the end of 2011.**

89. The Committee also welcomes the recent announcement by the Scottish Government that it has authorised the construction of two new hybrid ferries. The Cabinet Secretary told the Committee—

“Last week, I awarded Ferguson Shipbuilders in Glasgow a £20 million contract for two new hybrid ferries. That two-year contract will safeguard 75 jobs, create 100 jobs and 20 new apprenticeships...”<sup>49</sup>

## HOUSING

90. In terms of the overall budget for housing and regeneration the headline points which emerge are as follows:

- The housing and regeneration budget for 2012-13 (excluding ring fenced grants for local authorities) is £300.8m— a decline of 22.8% in cash terms, or 24.7% in real terms, from 2011-12. This is despite an overall increase in the Infrastructure and Investment Portfolio of around 4% next year.
- While the budget for 2014-15 will rise slightly from the previous year it is down by 30% (cash terms) or 35.3% (real terms) from 2011-12 levels.
- Over the three year spending review period the total budget is £838.5m in cash terms or £797.4m in real terms. Over the three years capital spending declines more than resource spending. By 2014-15 capital spending is 35.9% lower than in 2011-12, while resource spending is 20.5% lower.

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<sup>47</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 2 November 2011, Col 269.

<sup>48</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 314.

<sup>49</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 302.

- Information on the resources to available to Glasgow and Edinburgh through ring fenced funding in the local government settlement under the transfer of management development funding (TMDF) is still to be confirmed, although the Minister for Housing and Transport has said that over the 3 years funding of around £250m will be made available<sup>50</sup>.

91.The Committee questioned witnesses on the adequacy of the housing and regeneration budget in terms of the overall allocation and the balance between capital and resource expenditure.

92.Gordon MacRae, representing Shelter Scotland, expressed concern about the reduction in the housing budget, saying—

“...this is the second year running in which the housing budget has taken a disproportionate share of the cuts. It is particularly disappointing that housing has been targeted when other areas of capital investment have had increases year on year... In the past couple of years, the housing supply funds have moved from being in a critical condition in the intensive care ward and into the high-dependency ward, but we are still a long way from recovery. We remain concerned that we are only beginning to touch the margins of the housing need in Scotland”<sup>51</sup>

93.This view was shared by Councillor Harry McGuigan, representing COSLA, who said—

“We have seen a continuing drop in available resources for social housing and affordable housing. We recognise that there are budget issues and we appreciate that we must work in partnership with the Scottish Government on the budget. However, we must keep reminding the Scottish Government and you as MSPs that the resources available to local authorities and registered social landlords are extremely limited, given the problems that we face.”<sup>52</sup>

94.Michael Levack of the Existing Homes Alliance welcomed the Scottish Government’s recognition of the importance of infrastructure investment in the current economic circumstances. However, he also suggested that the reduction in the housing budget could impact negatively on construction companies and their workforces. He said—

“Unfortunately, the cuts in the available budget—we appreciate that times are hard—mean that I cannot help thinking that we are storing up serious trouble for the future, particularly in company failures and the loss of skills and jobs.”<sup>53</sup>

95.In response to these concerns, The Cabinet Secretary for Infrastructure and Capital Investment said—

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<sup>50</sup> Speech to the SFHA conference 22 September 2011.

<sup>51</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 198.

<sup>52</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 199.

<sup>53</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 203.

“Shelter has said that we would require something like £630 million over the three years of the comprehensive spending review, in order to achieve our target. We are only £10 million short of that according to the published figures—not a substantial amount over the three years, according to Shelter’s calculations.”<sup>54</sup>

**96. Whilst the Committee appreciates and understand the overall constraints on the draft Budget, it also acknowledges the concerns expressed by some key stakeholders in the housing sector that the reduction in the housing and regeneration budget may limit the ability to address housing need as effectively as possible.**

**97. The Committee recognises the positive economic impact which results from spending in the housing sector. It therefore recommends that the Scottish Government should seek to significantly supplement the housing and regeneration line from its proposed transfer of £750m from resource expenditure to the capital programme over the period until 2014-15.**

### **Level 3 – Supporting Economic Growth/Housing Supply**

98. The supporting economic growth/housing supply budget line accounts for the largest proportion of the budget and will take one of the biggest shares of the budget cut in 2012-13 with a 43.6% real terms decline. The budget in 2012-13 is £155.3m and over the three years amounts to £448.8m. The affordable housing supply budget in 2012-13 is £125.3m while the regeneration programme budget is £30m. The Minister for Housing and Transport has indicated that the housing budget includes “£378m for new affordable housing over the next three years”.<sup>55</sup> This would imply that the remainder of this budget line, approximately £70.8m would be for regeneration activities.

99. The Scottish Government has committed to building 30,000 affordable homes over the next five years, 5,000 of which will be council houses. It was confirmed by the Minister for Housing and Transport, Keith Brown MSP that at least two thirds (19,998) of 30,000 homes will be for social rent.<sup>56</sup> The affordable home commitment includes those developed by councils and RSLs and others through the Innovation and Investment Fund or any corresponding arrangements in future years; the shared equity schemes, the National Housing Trust initiative and the Home Ownership Support Fund. It is assumed that this budget line will support these schemes.

100. Some witnesses raised concerns in evidence that the number of social rented houses that would that would be built would not adequately address the needs of the most vulnerable. Gordon MacRae of Shelter said—

“In the best-case scenario, assuming that the Scottish Government’s analysis is correct, 4,000 homes will be built, but there will be a shortfall and those homes will

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<sup>54</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 9 November 2011*, Col 307.

<sup>55</sup> Speech to the SFHA conference 22 September 2011.

<sup>56</sup> Scottish Government press release, 22 September 2011:  
<http://www.scotland.gov.uk/News/Releases/2011/09/22152925>

not address the needs of the people who are in greatest poverty and who are most at risk of repeat homelessness.”<sup>57</sup>

101. Cllr McGuigan of COSLA also highlighted the concern that failure to deliver enough new affordable homes impact may impact on efforts to tackle homelessness—

“We are all facing extremely difficult economic times. However, we are simply not building enough houses. We cannot escape from that priority. We want to tackle homelessness and respond to people’s aspirations. We are trying to deal with homelessness but we also have growing waiting lists throughout Scotland and, if we are going to tackle that, we must build homes. That is the issue.”<sup>58</sup>

102. The Cabinet Secretary was questioned on the proportion of the 30,000 affordable homes commitment that will be available for social rent. In response, he said—

“We said that the Government’s commitment was to complete 6,000 affordable new houses every year. The vast bulk of those will be built by housing associations and will be social rented housing. However, the bit that does not go to the social rented sector is equally beneficial to that sector. That is what matters.”<sup>59</sup>

103. Reasons for the budget line decreasing in 2012-13 include the reduction in subsidy rates, the move to paying for developments on completion (as opposed to a mixed approach which was previously operated), and a slight reduction in the target number of homes to deliver. In 2011-12 subsidy levels are £40,000 (down from previous levels around £66k) and £30,000 for councils (up from previous £25k). Research published in 2010<sup>60</sup> suggested that social landlords had more capacity to build at lower subsidy levels.

104. Although social landlords have managed to build at these subsidy levels there are some concerns about the long term sustainability of these levels. Shelter Scotland’s submission suggests that these subsidies are “only likely to be possible in the medium to longer term through significant increases in rents to pay for the increased borrowing costs”.<sup>61</sup>

105. Maureen Watson of SFHA suggested in evidence that the £40,000 subsidy “is not adequate if we are to produce genuinely affordable social rented housing.”<sup>62</sup>

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<sup>57</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 207.

<sup>58</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 201.

<sup>59</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 317.

<sup>60</sup> Bramley, G et al (2010) A Study into the Capacity of Registered Social Landlords and Local Authorities to Build Housing Across Scotland:  
<http://www.scotland.gov.uk/Publications/2010/11/11115938/0>  
<http://www.scotland.gov.uk/Publications/2010/11/11115938/0>

<sup>61</sup> Written evidence is available at:  
<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>62</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 206.

106. The Innovation and Investment Fund was new for 2011-12, although the council house funding had been made through a challenge fund approach over the last few years. The Minister of Housing and Transport has indicated that he has listened to concerns from stakeholders about the challenge fund approach in the IIF and would be working with stakeholders to discuss future arrangements<sup>63</sup>.

107. In evidence to the Committee, the Cabinet Secretary provided details of the mix of funding sources for the Innovation and Investment Fund—

“About a month ago, Keith Brown and I made two announcements about total investment in the housing programme of £460 million over the next two to three years from the innovation and investment fund. Of that, £110 million is Scottish Government money and the other £350 million comes from public works borrowing through the councils, bank borrowing through the housing associations and a range of other sources.”<sup>64</sup>

108. An example of stakeholders’ concerns in relation to the IIF was given by Maureen Watson of SFHA, who said—

“We have surveyed our members who bid successfully in both tranches of the innovation and investment fund this year and all but one has said that that is completely unsustainable and that they could not repeat that for even one further year. The one member that says that it could bid again could do so only for a small number of units.”<sup>65</sup>

109. Responding to claims that housing associations were not enthusiastic about the IIF approach, the Cabinet Secretary made clear that he found this surprising given the level of interest shown in the scheme—

“We must look at the facts. A number of the housing association proposals that we have received under the innovation and investment programme asked for less than £40,000 per unit. The fund was divided into three: there was £20 million for councils, £20 million for housing associations and £10 million for a mixture. The £20 million for housing associations, which worked out as an average of £40,000 per unit, was oversubscribed by a factor of five. When people say that housing associations cannot do it, they are talking nonsense, to be frank. The housing associations have proved that they can do it and they are doing it.”<sup>66</sup>

110. Jonathan Fair of Homes for Scotland expressed the view that a mixed-tenure approach, including houses for mid-market rent, shared equity and shared ownership

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<sup>63</sup> Speech to SFHA conference 22 September 2011.

<sup>64</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 9 November 2011*, Col 315.

<sup>65</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 26 October 2011*, Col 203.

<sup>66</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report, 9 November 2011*, Col 317.

properties, as well as homes for sale on the open market was important to address different needs.<sup>67</sup>

111. However, Councillor McGuigan of COSLA, whilst agreeing that a mix of solutions may be required, highlighted a concern that public money might be used to support the development of mid-market homes—

“...it is important to investigate and analyse every model that suggests that we can improve the supply of affordable housing, mid-market rent properties and so on. We must be careful, however, that we do not become involved in building homes, at an overall cost to the taxpayer, that benefit a sector of society that is well enough off to be able to find homes by other means. We must be careful that we do not use the revenue for that purpose—that worries many of us in local authorities.”<sup>68</sup>

112. When providing evidence to the Committee, the Cabinet Secretary explained the Scottish Government’s position on the mixed tenure approach —

“The balance between such housing [*for social rent*] and what some people would describe as non-social housing means that that spending takes people off the waiting list, thereby making it more likely that people who rely on social housing get a house because the waiting list is not inflated by including people who are either in intermediate housing or who are able, though shared equity, to buy a house of their own. That is a comprehensive strategy.”<sup>69</sup>

113. There is also money within the local government settlement for housing supply. Although no figure is given within the budget documents, the Cabinet Secretary confirmed that, “Next year, it is about £90 million; £250 million will be provided over the three years”.<sup>70</sup> The Minister for Housing has indicated that the Government would be “talking to COSLA and the Association of Local Authority Chief Housing Officers about how those funds could best be applied across Scotland”<sup>71</sup>. It was reported in *Inside Housing*<sup>72</sup> that the Minister’s speech implied that Edinburgh and Glasgow would have to share the £250m and that were “concerns that Edinburgh and Glasgow could struggle to fulfil their pledge to build almost 2,000 affordable homes next year, about half of which will be for social rent”.

114. Information on the resources to available to Glasgow and Edinburgh through ring fenced funding in the local government settlement under the transfer of management development funding (TMDF) is still to be confirmed. This issue was raised with the Cabinet Secretary when he gave evidence to the Committee. He confirmed that discussions were underway on this matter—

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<sup>67</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 207.

<sup>68</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 208.

<sup>69</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 316.

<sup>70</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 319.

<sup>71</sup> Speech to SFHA conference 22 September 2011.

<sup>72</sup> “Edinburgh and Glasgow Forced to Share Housing Fund” 7 October 2011.

“We are discussing with COSLA and Glasgow City Council the adjustments that we need to make to ensure...the allocation of resources according to need and demand.”<sup>73</sup>

115. Support was expressed by witnesses on the value in identifying and encouraging further innovations which might be applied to the funding of affordable housing by the Scottish Government. For example, Councillor McGuigan of COSLA said—

“Such innovation is happening and more of it will happen if the money is used as a planned resource rather than as a piecemeal resource, as it is at the moment.”<sup>74</sup>

116. The Shelter representative also agreed that more needs to be done to support and develop innovation within the sector—

“If the housing sector has already demonstrated its ability to innovate and to build more homes for less, surely that is a case for putting more money into housing, rather than for cutting it further back. The other main innovation that we would like is a bit of stability around housing supply funding. There are ideas that are not fully formed; ideas about an infrastructure or a housing bank, for example, are in the ether. There are ideas that could bring stability if they could be established.”<sup>75</sup>

**117. The Committee has experienced difficulty in obtaining a full and clear picture from the available information on the adequacy of funding to deliver on affordable housing over the spending review period. The information in the draft Budget provides is only one component. An allocation will also be made to local authorities via the local government settlement, but the details of this have yet to be announced. In addition, significant funding will be obtained from a range of other sources as part of the Innovation and Investment Fund, such as public works borrowing through the councils and bank borrowing through the housing associations. Detailed information on these components is not available.**

**118. Is considered important that in future the Committee has access to clearer and more comprehensive information to allow it to better consider the adequacy of Scottish Government budget provision for housing in the remainder of the spending review period. It therefore calls on the Scottish Government to consider how it might provide information on the numbers of house completions and projected completions, broken down by the various sources of funding used, in advance of the next draft Budget. This would greatly assist the Committee in conducting a proper analysis of progress being made in delivering the Scottish Government’s commitments on affordable housing.**

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<sup>73</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 321.

<sup>74</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 210.

<sup>75</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 211.

## Supporting Sustainability

119. In 2011-12, the Supporting Sustainability budget line comprised the energy assistance package (EAP)/home insulation scheme, grant commitments to stock transfer landlords and private sector initiatives.

120. In 2012-13 the budget is £118.3m, an increase of 37.6% (real terms) since 2011-12 and remains above 2011-12 levels over the Spending Review period.

121. During the statement on fuel poverty made on 5 October<sup>76</sup> the Cabinet Secretary indicated that “funding for fuel poverty and energy efficiency programmes will be £65 million in 2012-13 and 2013-14, rising to £66.25 million in 2014-15”. The remainder of the budget line in 2012-13, £52.3m will be used to fund grant commitments to stock transfer landlords.”

122. The budget for the EAP/home insulation programmes in 2011-12 was £48m, and the Cabinet Secretary indicated on 5 October that an additional £5m would be made available giving a total of £53m for 2010-11. Therefore, resources in this area in 2012-13 have increased by 22% (although they are just back under 2010-11 levels).

123. The increase in funding for these programmes was welcomed by Dr Dan Barlow of the Existing Homes Alliance who said—

“We support the universal home insulation scheme, which is one of the schemes that deliver well, and we suggest that increasing the budget for that scheme is an efficient and effective way in which to improve the efficiency of Scotland’s building stock and deliver substantial carbon reductions”.<sup>77</sup>

124. Table 13.09 of the budget also shows the budget for the Scottish Futures Fund, which includes resources for the Warm Homes Fund and the Future Transport Fund. A total figure of £59.5 over the next 3 years for these programmes is given. It appears that the budget will be split roughly evenly between the two programmes, as the Cabinet Secretary informed the Energy, Economy and Tourism Committee that—

“the level 4 splits in the budget paper show that the warm homes fund will be £3.25 million next year, £7.75 million in the second year and £18.75 million in the third year. That comes to just under £30 million cumulatively over the three years.”<sup>78</sup>

### *Climate Change and a Low Carbon Economy*

125. The Climate Change (Scotland) Act 2009 sets targets to reduce Scotland's emissions greenhouse gases by 42% by 2020 and 80% by 2050, compared to the

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<sup>76</sup> Scottish Parliament debate on fuel poverty. *Official Report*, 5 October 2011: <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=6446>

<sup>77</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 216.

<sup>78</sup> Scottish Parliament Economy, Energy and Tourism Committee. *Official Report*, 2 November 2011, Col 511.

1990/1995 baseline. The Report on Proposals and Policies (RPP) to deliver Scotland's Climate Change Act<sup>79</sup> notes that milestones in 2020 include:

- every home to have loft and cavity wall insulation, where this is cost-effective and technically feasible, plus simple measures such as draught-proofing and pipe lagging;
- every home heated with gas central heating to have a highly efficient boiler with appropriate controls; and
- at least 100,000 homes to have adopted some form of individual or community renewable heat technology for space and/or water heating.

126. The Energy Efficiency Action Plan, published in 2010, includes details of Scottish Government policies for reducing energy use and emissions from homes. Chapter 3 (p19) of the budget document outlines the Scottish Government's plans for a "Transition to a Low Carbon Economy". It indicates that resources available in the budget will over the next three years will "meet our Housing Energy Efficiency commitments in full and we will also aim to maximise leverage of additional funding from energy companies and other sources."

127. However, Dr Dan Barlow, representing the Existing Homes Alliance disagreed with this view. He said—

"In the budget, there is an increase in spending on energy efficiency and fuel poverty compared with last year. However, it still falls short of the funding that was available in previous years. If we compare the current funding proposals with what we think is necessary to be confident of meeting the climate change targets and the fuel poverty eradication target, we believe that they will fall short of the funding that is necessary to meet those important targets."<sup>80</sup>

128. The budget documents also indicate that the Government will also "aim to maximise leverage of additional funding from energy companies and other sources to support sustainable housing". Witnesses were invited to provide their views on how this might be achieved.

129. Dr Dan Barlow of the Existing Homes Alliance advised the Committee that funding from the energy sector is available through existing UK measures such as the carbon emissions reduction target scheme and the forthcoming energy company obligation and Green Deal initiatives. He stressed the importance of ensuring that the opportunity to obtain an equitable benefit for Scotland from these initiatives should not be missed—

"Many of them will be consulted on over the coming year, and it is imperative that we ensure that the measures will deliver what we need in Scotland and that Scotland gets a fair return and a fair share of the available funding".<sup>81</sup>

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<sup>79</sup> Scottish Government Low Carbon Scotland: Meeting the Emissions Reductions Targets 2010-2022: the Report on Proposals and Policies. Available on the Scottish Government's website at:<http://scotland.gov.uk/Publications/2011/03/21114235/7>.

<sup>80</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 200.

<sup>81</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 213.

**130. The Committee urges the Scottish Government to make every effort to ensure that Scotland’s interests are fully represented in discussions on the allocation of funding from the relevant UK initiatives.**

131. Gordon MacRae of Shelter stated that the RSL sector had improved the standard of accommodation through its work towards the Scottish housing quality standard. He suggested that similar regulation in the private rented sector would deliver improvements in the sustainability of housing stock—

“Sometimes one of the best ways to get people to take action is to have a better balance between the carrot and the stick. We would certainly welcome a better analysis and understanding of the tolerance in the private rented sector for higher-quality standards and corresponding legislation.”<sup>82</sup>

132. The Committee notes that the Existing Homes Alliance has argued that there needs to be a national retrofit campaign which would deliver improvements in the energy efficiency of existing housing stock. One of its representatives, Michael Levack, provided further details of this proposal in evidence—

“The existing homes alliance is calling for a national retrofit programme to establish by whatever means—perhaps, again, through innovation—a realistic and continuous funding stream that underpins and supports a comprehensive programme of improving the current built stock’s energy efficiency. A short-term sticking-plaster approach will not work because it will not allow us to meet the 2020 and 2050 carbon reduction targets, will not end fuel poverty in Scotland, will not provide jobs and apprenticeship places and will certainly not encourage building contractors to grasp the opportunity and use their innovation, skills and experience to tackle the need for greater energy efficiency.”<sup>83</sup>

**133. The Committee welcomes the increase in budget for home insulation and energy efficiency measures. However, it notes the concerns expressed in evidence that, despite this increase, the available funding may not be enough to deliver the housing sector’s contribution towards meeting the Scottish Governments own climate change targets and, specifically, the objectives set out in the Report on Proposals and Policies (RPP).**

**134. The Committee recognises that the Scottish Government is faced with difficult spending choices. However, if its own ambitious carbon reduction targets are to be met, it notes that more innovative and creative solutions may have to be identified to make the necessary home insulation and energy efficiency improvements across all housing tenure types. The Committee notes the economic benefits in terms of job creation, opportunities for local companies etc. that such initiatives can potentially deliver.**

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<sup>82</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 214.

<sup>83</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 213.

### Level 3 - Supporting Transitions

135. The Committee notes that the Supporting Transitions budget line declines by 45.1% (real terms) in 2012-13 and declines year on year thereafter. In 2012-13 this budget line includes resources for adaptations, homeowners support fund, provision for regeneration and housing support. Last year around £8m was allocated for adaptations and this has been reduced to £6m in 2012-13. The SFHA have claimed that this was a 21% cut in funding from the previous year<sup>84</sup>. The Scottish Government is currently reviewing the process of funding adaptations. The budget document states that, “the growth in numbers of older people poses particular issues for housing, and we will publish a national strategy on housing for older people”.

136. Commenting on the process of funding adaptations, Maureen Watson of the SFHA said—

“We are represented on the Scottish Government’s adaptations sub-group, which is looking across the board and across tenures at new methods of funding adaptations...an attempt was made to change the funding arrangements for adaptations in our sector and we opposed it vigorously. We welcome the fact that the Government chose to step back on that. We are looking for something that is tenure blind and genuinely considers the individual’s needs. We note and are disappointed by the 25 per cent cut in the level 4 figures that were published yesterday.”<sup>85</sup>

137. The SFHA representative also recommend that the committee read a report published by Bield Housing Association, Hanover (Scotland) Housing Association and Trust Housing Association on the social return on investment in very sheltered housing and adaptations<sup>86</sup>. She referred to a reference in the report to a £1.4 million spend last year by these three organisations on adaptations which saved the Scottish Government health and social care budgets approximately £5.3 million.

138. Councillor McGuigan gave the COSLA view—

“The view in COSLA is that there should be equalisation between local authorities and RSLs on adaptations. We have to fund adaptations under our housing revenue account through our business plans and we feel that that is how RSLs should fund them. They currently receive the resources in a block from the Scottish Government. We feel that that money should be used in the collective resource that is available for the building of affordable social housing and the needs should be met in their business plans.”<sup>87</sup>

**139. The Committee notes that the Scottish Government is to produce a national strategy on housing for older people and looks forward to its publication with**

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<sup>84</sup> SFHA Submission to Finance Committee September 2011:

[http://www.sfha.co.uk/component/option.com\\_docman/Itemid,37/gid,1472/task.doc\\_download/](http://www.sfha.co.uk/component/option.com_docman/Itemid,37/gid,1472/task.doc_download/).

<sup>85</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 217.

<sup>86</sup> [Measuring the Social Return on Investment of Stage 3 Adaptations and Very Sheltered Housing in Scotland](#).

<sup>87</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 219.

interest when it will examine the issue of adaptations in more detail. However, it notes the example of preventative spend benefits of adaptations highlighted in evidence and discusses these further in the next section of this report.

### Preventative Spending

140. A major element of the Scottish Government's programme for public service reform is to make a decisive shift towards preventative spending. The Session 3 Finance Committee published a report in January 2011 on preventative spending in which it concluded, among other things:

“The Committee therefore recommends that future budget documents should include an assessment under each portfolio heading of the progress being made towards a more preventative approach”.

141. The Scottish Government's broad approach is set out briefly in Chapter 5 of the budget document. The Draft Budget document refers to —three new funds, providing a total of more than £500m over the spending review period to support this agenda. The three funds are: Change Fund for older people's service, Early Years and Early Intervention Change Fund and Reducing Reoffending Change Fund. The first one of these funds probably has the most link into housing services. The housing and regeneration section of the budget does not appear to include the degree of systematic assessment that the Session 3 Committee recommended.

142. The Session 4 Finance Committee is continuing its predecessor's work in this area by focussing its scrutiny of the Spending Review on preventative spend and has emphasised the need for committees to consider preventative spending in their budget scrutiny. The SFHA submission<sup>88</sup> to the Finance Committee's call for evidence on the draft budget highlights the link to between housing spending and savings in other budgets such as health, social care, education, justice and climate change. They argue that:

“Affordable housing needs to be seen in its own right in terms of preventative spending. Investing now in affordable housing, housing support, community regeneration and energy efficiency can save money in other budgets such as health, social care, education, justice and climate change. This would be not only a much needed shot in the arm of economic recovery for Scotland, but it would also cement the Scottish Parliament's determination to tackle the entrenched issues of poverty, ill health and deprivation that so consistently drain the Scottish treasury.”

143. The Committee notes that the Existing Homes Alliance<sup>89</sup> is of the opinion that investment to cut fuel poverty and emissions would have huge economic, social and environmental benefits and are an important preventative spend opportunity.

**144. The Committee notes that significant potential exists to develop existing spend – for example on energy efficiency and adaptations initiatives – and to**

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<sup>88</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 219.

<sup>89</sup> Existing Homes Alliance, Briefing for the Ministerial Fuel Poverty Statement and the Scottish Parliament debate on Housing, October 2011.

identify further opportunities for preventative spend within the housing and regeneration budget. It is encouraged by the example provided by the SFHA of spending on adaptations which led to savings in health and social care budgets. Although the Committee has not examined this specific initiative in detail, it appears to be an excellent example of preventative spend in the housing sector.

145. The Committee agrees that preventative spend measures have capacity not only to save money but also to make a contribution to the delivery of other Scottish Government objectives such as its ambitious climate change targets, improvements in health and social care and progressing the homelessness agenda. It is therefore of the view that the Scottish Government should place a particular focus on this aspect of the development of its future spending plans for housing and regeneration.

146. The Committee recommends that the Scottish Government should work with stakeholder partners to make a comprehensive assessment of the opportunities for preventative spend across the housing sector which have potential to deliver savings in that sector and in other portfolio areas.

#### **Potential impact of the Welfare Reform Bill**

147. In a written submission to the Committee<sup>90</sup>, Citizens Advice Scotland expresses its view that the UK Welfare Reform Bill will have a significant impact on housing and homelessness services in Scotland during the lifetime of the Spending Review. CAS raises concerns that the Review does not factor in the potential impact of the proposed changes contained in the Bill.

148. Other who gave evidence to the Committee shared these concerns. Gordon MacRae of Shelter said—

“It is important to appreciate the impact that the bill will have on housing supply. Housing benefit is a significant revenue stream on which landlords rely to ensure that their books balance and the reforms will eat into that in no small part.”<sup>91</sup>

149. Jonathan Fair of Homes for Scotland suggested that the proposed changes could have a negative impact on development proposals —

“The bill may have unintended consequences for some of the wider housing supply innovations that we have talked about, such as the national housing trust, under which rents are benchmarked to local housing allowance rates. Changes to the welfare system may mean that some proposals that we are trying to push are no longer viable.

“The other reform that is concerning is the proposed shift from payment to the landlord to payment to the tenant, because that removes certainty of income stream for the investor. Those aspects of the reforms are deeply unhelpful for

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<sup>90</sup> Written evidence available at:

<http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/43252.aspx>.

<sup>91</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 218.

trying to drive greater private sector involvement in the delivery of affordable housing.”<sup>92</sup>

150. **The Committee notes that the Spending Review does not factor in the impact of the changes proposed in the Welfare Reform Bill. It calls on the Scottish Government to monitor developments closely and to maintain a close dialogue with stakeholders should the proposed changes impact on the allocations in the Spending Review for the provision of housing and homelessness services.**

151. The Committee will report in more detailed terms to the Health and Sport Committee on the housing aspects of the UK Welfare Reform Bill to inform its consideration of the Legislative Consent Memorandum on the Bill.

#### DIGITAL INFRASTRUCTURE

152. The Committee welcomes the Scottish Government’s commitment to providing funding for the improvement of Scotland’s broadband network. The Cabinet Secretary confirmed that the amount of available support will equate to £143m<sup>93</sup> over the spending review period to 2014-15.

153. However, the Cabinet Secretary recognised that the costs of supplying superfast broadband across Scotland could be substantially more than the funding available. He cited the estimated cost of £300m for rolling out superfast broadband to everyone in the Highlands and Islands. In view of these high costs, the Cabinet Secretary stated that he intends to “turn the £143m into a much higher figure to fund on-going investment in superfast broadband in Scotland”<sup>94</sup> by leveraging in additional funding from local authorities, Europe and the private sector, particularly contractors.

154. The Cabinet Secretary also confirmed that he intended to publish an action plan for rolling out the money and the criteria that he will use to do that, by early 2012. The Committee will examine the detail of the Government’s action plan on broadband in the course of its current work on Scotland’s broadband infrastructure. As part of that exercise, the Committee will give consideration to the Government’s plans for allocating the available funds and for leveraging additional funds from other available sources.

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<sup>92</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 26 October 2011, Col 219.

<sup>93</sup> Made up of £68.8m from UK Government funding, £50m from the Next Generation Digital Fund, £25m from European Structural Funds, equalling £143.8m.

<sup>94</sup> Scottish Parliament Infrastructure and Capital Investment Committee. *Official Report*, 9 November 2011, Col 323.

## **EXTRACTS FROM THE MINUTES OF THE INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE**

### **3rd Meeting, 2011 (Session 4), Wednesday 7 September 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee agreed its approach to the scrutiny of the Scottish Government's Draft Budget 2012-13 and the Spending Review 2011.

### **5th Meeting, 2011 (Session 4), Wednesday 5 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee heard evidence on the Scottish Government's 2012-13 and Spending Review 2011 from—  
Professor Tom Rye, School of Engineering and the Built Environment, Napier TRI;  
David Connolly, Director of Technical Development, MVA Consultancy;  
Professor Iain Docherty, Professor of Public Policy and Governance, University of Glasgow.

**Draft Budget 2012-13 and Spending Review 2011:** The Committee agreed to delegate to the Convener responsibility for arranging for the SPCB to pay, under Rule 12.4.3, any expenses of witnesses in relation to the Draft Budget 2012-13 and Spending Review 2011.

### **6th Meeting, 2011 (Session 4), Wednesday 26 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee heard evidence from—  
Councillor Harry McGuigan, Spokeperson for Community Wellbeing and Safety, and Caroline Johnston, Policy Manager, COSLA;  
Dr Dan Barlow, Head of Policy, WWF Scotland, and Michael Levack, Chief Executive, Scottish Building Federation, The Existing Homes Alliance;  
Maureen Watson, Policy and Strategy Director, Scottish Federation of Housing Associations;  
Gordon MacRae, Head of Communications and Policy, Shelter Scotland;  
Jonathan Fair, Chief Executive, Homes for Scotland.

### **7th Meeting, 2011 (Session 4), Wednesday 2 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee heard evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—  
Scott Allan, Head of Roads and Transportation, Renfrewshire Council, Society of Chief Officers of Transportation in Scotland;  
Eric Guthrie, Partnership Director, Tayside and Central Scotland Transport Partnership;  
Dave Duthie, Partnership Director, Highlands and Islands Transport Partnership;

Valerie Davidson, Assistant Chief Executive, Business Support, and Neil Wylie, Director of Finance & Human Resources, Strathclyde Partnership for Transport;

Amy Dalrymple, Policy & Research Manager, Scottish Chambers of Commerce;

Gareth Williams, Head of Policy, Scottish Council for Development and Industry;

David Lonsdale, Assistant Director, CBI Scotland;

Colin Howden, Director, Transform Scotland;

Ian Aitken, Chief Executive, Cycling Scotland;

John Lauder, National Director for Scotland, SUSTRANS;

Keith Irving, Manager, Living Streets Scotland.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee reviewed the evidence heard during the meeting.

**8th Meeting, 2011 (Session 4), Wednesday 9 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee heard evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Alex Neil MSP, Cabinet Secretary for Infrastructure and Capital Investment, Rachel Gwyon, Head of Housing: Sustainability and Innovative Finance, Sharon Fairweather, Director, Finance, Transport Scotland, and Victoria Bruce, Policy Manager, Infrastructure Investment Policy, Scottish Government.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee reviewed the evidence heard during the meeting.

**9th Meeting, 2011 (Session 4), Wednesday 16 November 2011**

**Draft Budget 2011-12 and Spending Review 2011 Scrutiny (in private):** The Committee agreed its draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.



The Scottish Parliament  
Pàrlamaid na h-Alba

### Justice Committee

## Report on the Scottish Government Draft Budget 2012-13 and Spending Review 2011

The Committee reports to the Finance Committee as follows—

### Background

1. This year the Justice Committee focused its scrutiny of the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 on two specific areas: (a) prisons, as one of the largest budget areas within the Justice portfolio, and (b) the courts and legal aid, where inefficiencies had been highlighted in a recent Audit Scotland report.<sup>1</sup>

2. The Committee was also aware that legislation on police reform was expected early in 2012<sup>2</sup> and that it would have a role in examining the Police budget in more detail at that time. However, a number of issues relating to aspects of the Police budget, such as police numbers and reform, arose during scrutiny and are therefore discussed in this report.

3. The Committee received 15 responses to its call for written evidence and heard from one panel of witnesses on prisons on 25 October and two panels of witnesses on the courts and legal aid on 25 October and 1 November 2011.<sup>3</sup> The Cabinet Secretary for Justice and his officials gave evidence to the Committee on 1 November.

### Overview

4. The Scottish Government's spending plans in the Justice portfolio should be seen in the context of the overall Draft Budget 2012-13 and Spending Review 2011, which was set by reference to the UK Government's Spending Review Settlement 2010, itself drawn up against a background of worldwide economic challenges. Constraints on spending are not as severe as those applied in relation to the 2011-12 draft budget, when cash reductions were made to most areas. Nevertheless, spending is no longer

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<sup>1</sup> Audit Scotland. (2011) *An overview of Scotland's criminal justice system*. Available at: [http://www.audit-scotland.gov.uk/docs/central/2011/nr\\_110906\\_justice\\_overview.pdf](http://www.audit-scotland.gov.uk/docs/central/2011/nr_110906_justice_overview.pdf) [Accessed 14 November 2011]

<sup>2</sup> Scottish Government. (2011) *Renewing Scotland: The Government's Programme for Scotland 2011-12*. Available at: <http://www.scotland.gov.uk/Publications/2011/09/08102006/1> [Accessed 14 November 2011]

<sup>3</sup> The prisons panel involved the Scottish Prison Service, HM Chief Inspector of Prisons Scotland, Prison Officers' Association Scotland, and Sacro. The first panel on the courts and legal aid comprised the Faculty of Advocates, Scottish Legal Aid Board, Law Society of Scotland and Citizens Advice Scotland and a further panel involved the Scottish Court Service, including the Lord President.

growing in the way it did in the first ten years of the Scottish Parliament, and is unlikely to do so for some time to come.

5. In 2012-13, overall Departmental Expenditure Limits (DELs) are set to increase by 0.9% in cash terms; this equates to a fall of 1.6% in real terms. Over the Spending Review period (i.e. up to 2014-15) overall DELs increase by 2.1% in cash terms, which equates to a decrease of 5.5% in real terms. More generous DELs are applied to the Justice portfolio in 2012-13, with an increase of 6.3% in cash terms (a 3.7% increase in real terms). However, planned reductions in the subsequent two years produce an overall reduction of 1.6% in cash terms over the Spending Review period (a 9% decrease in real terms). Table 1 below shows the total Resource and Capital budgets over the Spending Review period compared to those in the Justice portfolio.

Table 1: Resource and Capital budgets 2011-12 to 2014-15<sup>4</sup>

|                  | 2011-12 plans<br>£m | 2012-13 budget<br>£m | 2013-14 plans<br>£m | 2014-15 plans<br>£m |
|------------------|---------------------|----------------------|---------------------|---------------------|
| DEL Resource     | 25,400.6            | 25,788.4             | 26,079.4            | 26,286.6            |
| DEL Capital      | 2,606.7             | 2,471.4              | 2,238.4             | 2,319.6             |
| <b>Total DEL</b> | <b>28,007.3</b>     | <b>28,259.8</b>      | <b>28,317.8</b>     | <b>28,606.2</b>     |
| <b>Justice</b>   |                     |                      |                     |                     |
| DEL Resource     | 1,193.4             | 1,231.7              | 1,244.6             | 1,223.6             |
| DEL Capital      | 70.9                | 112.4                | 50.2                | 20.3                |
| <b>Total DEL</b> | <b>1264.3</b>       | <b>1,344.1</b>       | <b>1,294.8</b>      | <b>1,243.9</b>      |
| <b>COPFS</b>     |                     |                      |                     |                     |
| DEL Resource     | 105.5               | 104.5                | 104.5               | 105.1               |
| DEL Capital      | 2.7                 | 3.6                  | 3.6                 | 3.6                 |
| <b>Total DEL</b> | <b>108.2</b>        | <b>108.1</b>         | <b>108.1</b>        | <b>108.7</b>        |

6. Spending plans for the Justice portfolio do not include a number of ring-fenced grants provided to local authorities, as part of the Local Government budget, to help pay for certain justice-related services, such as the Police Grant and the Criminal Justice Social Work budget. These are significant sums: for example, the Police Grant remains at £480.3 million over the Spending Review period.<sup>5</sup>

7. The Committee notes, and in principle agrees with, the Scottish Government's emphasis on preventative spending. It is now widely accepted that early years intervention can reduce offending and other anti-social behaviour in later life. In this connection, the Committee notes that the *Scottish Spending Review 2011 and Draft Budget 2011* document provides details of an Early Intervention Change Fund of £50 million, which is to come from the Education and Lifelong Learning Portfolio and is

<sup>4</sup> Scottish Parliament Information Centre. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. SPICe Briefing 11/72. Available at: <http://www.scottish.parliament.uk/ResearchBriefingsandFactsheets/S4/SB11-72.pdf> [Accessed 14 November 2011]. Scottish Parliament Information Centre. (2011) *Draft Budget 2012-13: Justice*. SPICe Briefing 11/78. Available at: <http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/SB11-78.pdf> [Accessed 14 November 2011]

<sup>5</sup> Although the figures in the *Scottish Spending Review 2011 and Draft Budget 2012-13* suggest that the Police Grant was £489.7m in 2011-12, the actual figure agreed as part of the 2011-12 Budget Bill was £480.3 million.

intended to support projects that deliver effective early intervention in a child’s life. It further outlines a new three-year Reducing Reoffending Fund of £7.5 million, also focusing on preventative spend to “bolster those interventions that we know can reduce reoffending”<sup>6</sup>.

## Prisons, community penalties and reoffending

### Overview

8. Funding for the Scottish Prison Service (SPS), detailed in Table 2 below, increases in 2012-13 by 9.6% (a real terms increase of 6.9%). The smaller increase over the Spending Review period of 3.6% equates to a real terms decrease of 4.2%. Over the three year Spending Review period, the prison capital budget is set to increase (to £75.5 million in 2012-13) and then fall sharply (to £12.5 million in 2014-15). This follows a period of heavy investment in prison modernisation and expansion after the SPS Estates Review in 2002.

Table 2: Scottish Prison Service Spending 2011-12 to 2014-15<sup>7</sup>

|                  | 2011-12 plans<br>£m | 2012-13 budget<br>£m | 2013-14 plans<br>£m | 2014-15 plans<br>£m |
|------------------|---------------------|----------------------|---------------------|---------------------|
| DEL Resource     | 318.0               | 325.1                | 342.0               | 366.2               |
| DEL Capital      | 47.5                | 75.5                 | 22.5                | 12.5                |
| <b>Total DEL</b> | <b>365.5</b>        | <b>400.6</b>         | <b>364.5</b>        | <b>378.7</b>        |

9. A written submission from the SPS indicates that the capital spend provided for in 2012-13 will support: (a) the opening of a new prison at Low Moss (providing an extra 700 prisoner places); (b) further work on the redevelopment of HMP Shotts, and (c) the construction of HMP Grampian (due to replace HMPs Aberdeen and Peterhead).<sup>8</sup>

10. John Ewing, Chief Executive of the SPS, advised the Committee that it might be possible to make further savings in revenue costs so as to supplement capital budgets<sup>9</sup>, as has been done successfully in the past.

### Prison Population

11. The Scottish Government’s latest set of prison population projections suggest an increase in the daily prison population from an annual average of 7,853 in 2010-11 to 8,800 by 2014-15.<sup>10</sup> Projections over the longer term point to an average daily prison population of 9,500 by 2019-20 (see table 3 below from Statistical Release: Scottish prison population projections: 2010-11 to 2019-20).

<sup>6</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> [Accessed 14 November 2011]

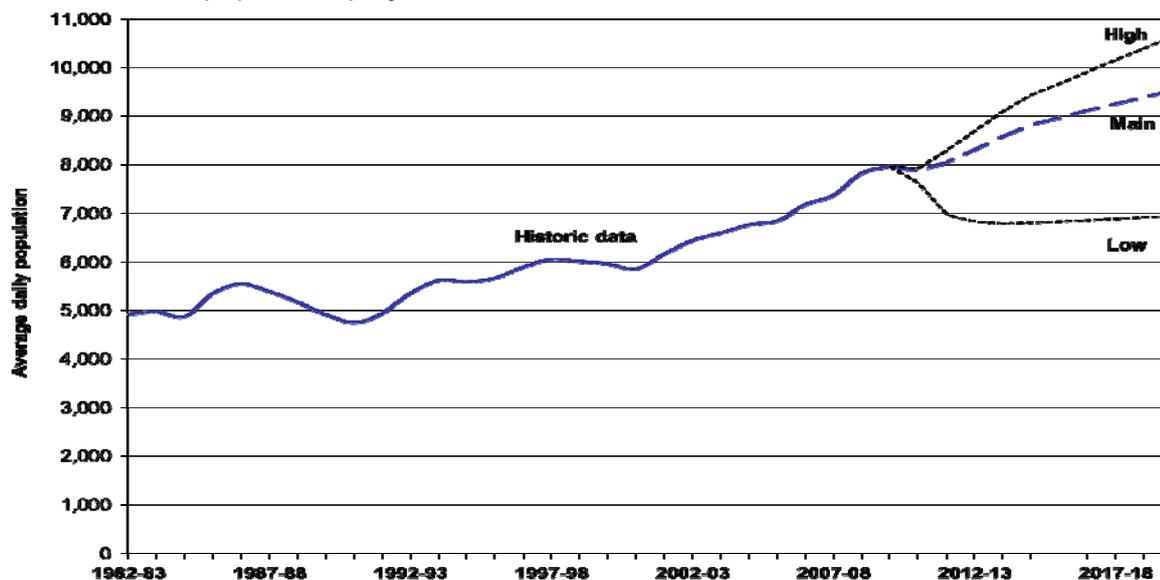
<sup>7</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> [Accessed 14 November 2011]

<sup>8</sup> Scottish Prison Service. Written submission, page 2

<sup>9</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011. Col 353.

<sup>10</sup> Scottish Government. (2011) *Statistical Release – Scottish prison population projections: 2010-11 to 2019-20*. Available at: <http://www.scotland.gov.uk/Resource/Doc/343260/0114200.pdf> [Accessed 14 November 2011]

Table 3 Prison population projections 1982-83 to 2017-18



12. The SPS and the Prison Officers' Association Scotland (POAS) agree that the spending proposals provide sufficient budget provision to cope with the current and projected prison population over the Spending Review period<sup>11</sup>.

13. However, the SPS plans are based on dealing with a prison population which exceeds the design capacity of the prison estate. Table 4 below, reproducing information provided by the SPS, shows prison population projections set against design capacity up to 2014-15.

Table 4: Prison population projections 2011-12 to 2014-15

|                                     | 2011-12 | 2012-13 | 2013-14 | 2014-15 |
|-------------------------------------|---------|---------|---------|---------|
| Average prisoner population         | 8,000   | 8,300   | 8,600   | 8,800   |
| Design capacity                     | 7,150   | 7,850   | 7,850   | 8,050   |
| Excess prisoners vs design capacity | 850     | 450     | 750     | 750     |

*Overcrowding*

14. Mr Ewing of the SPS, told the Committee that the SPS was seeking to provide a modern prison estate with capacity for 7,500 to 8,000 prisoners and that “we should not be building an estate for 9,500”.<sup>12</sup> He also stated that Ministers had “made it clear that they do not regard [longer term prison projections] as an acceptable level”.<sup>13</sup> Indeed, the Cabinet Secretary said he had no plans to build his way out of the problem and pointed to the costs of the new jails. Even if new prisons could be afforded, he would not wish to build them.<sup>14</sup>

<sup>11</sup> Scottish Prison Service. Written submission, page 1. Prison Officers' Association Scotland. Written submission, page 1.

<sup>12</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 356.

<sup>13</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 333.

<sup>14</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 427

15. The Committee heard that, following modernisation of the prison estate (including completion of HMPs Grampian and Inverclyde), 77% of the prison estate would be fit-for-purpose. The Committee accepts that this is real progress; however it has concerns regarding conditions in the rest of the estate, and has heard particular evidence relating to Cornton Vale<sup>15</sup> and an apparent lack of priority in modernising the female estate.

16. Brigadier Monro, HM Chief Inspector of Prisons Scotland, who raised significant concerns about the conditions at Cornton Vale in his latest inspection reports, told the Committee that “the issue for me is prioritisation in terms of where Cornton Vale comes on the list”.<sup>16</sup>

17. The Cabinet Secretary for Justice rejected the claim that the SPS did not regard Cornton Vale as a priority and outlined his support for action by the SPS to address overcrowding, such as moving prisoners to Saughton prison. However, he stated that it would cost £140 million to build a replacement for Cornton Vale and that this level of funding was just not available at this time.<sup>17</sup>

18. Mr Ewing confirmed that the SPS capital budget was heavily committed to the delivery of HMP Grampian during the Spending Review period and therefore there was little funding available to replace Cornton Vale. He outlined that it would cost between £10 million to £12 million to address some of the issues affecting female prisoners highlighted in the Chief Inspector’s reports, but questioned whether implementing those recommendations would indeed resolve the underlying problems facing women in prison.<sup>18</sup>

19. The Committee agrees in principle with the Scottish Government’s priority of preventative spend within its spending plans and noted the Finance Committee’s interest in the matter. The Committee heard that purposeful activity for prisoners could play a part in preventing reoffending and thereby saving money in the Justice portfolio in the long-term.

20. The Committee heard that overcrowding creates difficulties in providing purposeful activity for prisoners. For example, Mr Ewing of the SPS was of the view that “because of overcrowding, we do not have the capacity to provide the meaningful activity that we would like for the prison population”.<sup>19</sup> The Chief Inspector highlighted particular problems in Barlinnie, where “some 70% of prisoners are not getting access to purposeful activity”.<sup>20</sup>

21. Mr Ewing argued that short-term offenders were not in prison for long enough to engage them in purposeful activity and rehabilitation and suggested that the current presumption against short sentences should be extended to those with sentences of a year or less.<sup>21</sup> Tom Halpin, Chief Executive of Sacro, supported this view: “In fact we

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<sup>15</sup> Prison Officer Association Scotland, Written submission, page 1.

<sup>16</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 339.

<sup>17</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 422.

<sup>18</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Cols 341 and 353.

<sup>19</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 351.

<sup>20</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 336.

<sup>21</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 335.

question the value of sentences of less than two years, but we are pragmatic and realistic about public reassurance on the alternatives to those sentences”.<sup>22</sup>

22. The Chief Inspector told the Committee that the provision of purposeful activity should be extended to remand prisoners.<sup>23</sup> However, the Cabinet Secretary for Justice said that work to engage remand prisoners in purposeful activity was hampered by the need to separate them from convicted prisoners, by overcrowding, and by there being no legal requirement for them to work.<sup>24</sup>

#### *Alternatives to custody*

23. Given the Scottish Government’s stated position that it would not seek to expand the capacity of the prison estate beyond that provided for in the building plans already made public (including new HMPs Grampian, Inverclyde and Highland), the Committee was keen to establish whether greater use of alternatives to custody was being proposed to bring the prison population in line with design capacity.

24. However, both the budget for Community Justice Services and the Criminal Justice Social Work Grant, which both traditionally fund community penalties, were set to reduce in real terms over the Spending Review period. When asked whether the funding was sufficient, the Cabinet Secretary for Justice responded: “... we are satisfied that we have provided sufficient funds to ensure that the Community Payback Order continues to grow”.<sup>25</sup> He also confirmed that the new three-year Reducing Reoffending Fund would support Community Payback Orders. However, further details on the types of programmes that might be funded were not available, at that time.

25. The Cabinet Secretary went on to outline the benefits of alternatives to custody, such as the Community Payback Order—

“Prisons should not routinely be used for people who have committed less-serious offences and who are not a danger to our communities. The primary reason why is that we know that what reduces the likelihood of reoffending is a tough community sentence not a short prison sentence.

The statistics are clear (...); three quarters of those who are given short prison sentences will reoffend within two years, two thirds who are given a tough community sentence will not.”<sup>26</sup>

26. The Committee was also interested in the cost-effectiveness of specific alternatives to custody compared to prison sentences, but heard from witnesses about the difficulties in costing such programmes. Mr Ewing of the SPS told the Committee that: “the general calculation is that alternatives to custody, such as the work that is done by third sector organisations, are cheaper to operate than keeping someone locked up in prison for an equivalent length of time”.<sup>27</sup>

27. Mr Halpin of Sacro provided limited evidence to support this view—

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<sup>22</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 336.

<sup>23</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 351.

<sup>24</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 430.

<sup>25</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 409.

<sup>26</sup> Scottish Parliament Justice Committee, *Official Report*, 1 November 2011, Col 409.

<sup>27</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 334.

“No figure is available that neatly compares the cost of an alternative to custody with the cost of someone being in custody, but a number of indicators support the view that it is much cheaper to deal with the offender effectively in the community

One example is a project that my organisation runs mentoring women offenders in the community, where we build capacity with volunteers supported by co-ordinators. One year, for a budget of £33,000, the project worked with 42 women. The cost is comparable to that for one woman being in prison for a year.”<sup>28</sup>

### *Throughcare*

28. The Criminal Justice Social Work Development Centre for Scotland provides the following definition of throughcare on its website—

“Throughcare, sometimes called ‘transitional care’, refers to a range of social work and other support services to prisoners from the point of sentence or remand, during their period of imprisonment and subsequent release into community. It consists of two elements: work with offenders in prison to help them address and change their criminal behaviour, and work in the community designed to re-integrate them back into mainstream society.”<sup>29</sup>

29. There was widespread agreement amongst witnesses that throughcare for prisoners was essential in tackling reoffending and could therefore, in the long-term, reduce overcrowding in prisons and, with it, long-term prison costs. The Chief Inspector told the Committee—

“I would like to see much more determination to deal with prisoners’ underlying issues and to ensure that when they leave prison they are in a better state than when they arrived. We must have better through-prison care and we must make sure that we have understood precisely what the prisoner needs.”<sup>30</sup>

30. Mr Ewing explained to the Committee that, while local authorities have a statutory duty to produce care plans for offenders with sentences of four years or more, they have no such obligation for those with less than a four year sentence. For short term prisoners “local authorities will provide services, but the individual is not obliged to take them up”.<sup>31</sup> Mr Halpin also suggested that there was inconsistency in the provision of throughcare across Scotland.<sup>32</sup> Witnesses on the prisons panel were agreed that a much higher success rate in tackling reoffending could be achieved if throughcare services were extended to short term prisoners on a statutory basis.

31. The Cabinet Secretary for Justice announced to the Committee that he intends to undertake a formal review of throughcare—

“What breaks the cycle of reoffending is having a home to go to, having family or friends who have maintained contact with you and having employment, or at least something to structure your day, such as sporting activity. Those three things

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<sup>28</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 334.

<sup>29</sup> Criminal Justice Social Work Development Centre for Scotland website. Available at: <http://www.cjsw.ac.uk/cjsw/110.html?pMenuID=2&pElementID=49> [accessed 14 November 2011]

<sup>30</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 338.

<sup>31</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 350.

<sup>32</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 347.

break the cycle of reoffending. For that reason, we are happy to undertake a review of throughcare”.<sup>33</sup>

### Prisons - conclusions

**32.** The Committee believes that in this area, as in so many others, prevention is better than treatment and therefore, endorses the Scottish Government’s focus on preventative spend within the Draft Budget and Spending Review. Much preventative work that would have a significant impact on the Justice budget in the long term begins in other portfolios. **The Committee therefore welcomes the establishment of the Early Intervention Change Fund of £50 million. The Committee would welcome further information on exactly which projects will be funded, by how much, and how their effectiveness will be assessed.**

**33.** Similarly, the Committee also welcomes the Scottish Government’s creation of a Reducing Reoffending Fund of £7.5 million.<sup>34</sup> **The Committee understands that this funding will substantially be found from within the budget provision already allocated to Justice; therefore, the Committee would welcome further details of the funds that are to be reallocated, what new programmes they will support and how their effectiveness will be assessed.**

**34.** The Committee acknowledges the real progress that has been made with the modernisation of the prison estate, but remains concerned about the number of prisoners and suitability of their accommodation, particularly at Cornton Vale. The Committee intends to follow up its on-going concerns regarding the female prison estate with a series of visits.

**35.** The Committee notes that overcrowding is projected to continue in the long-term, yet funding for community penalties appears to reduce in real terms over the Spending Review period. **The Committee is still unclear as to how overcrowding is to be tackled in the long term and therefore urges the Scottish Government to clarify what action it intends to take to reduce overcrowding.** The Committee is likely to return to this issue over the course of this Parliament.

**36.** The Committee heard that there was difficulty in establishing how much might be saved by greater use of community penalties and the potential impact on reoffending. It is therefore concerned that the funding available for community penalties appears to flatline over the Spending Review period. **The Committee urges the Scottish Government to work with providers of community penalties to assess the cost and effectiveness of such schemes, so as to better inform plans for the punishment and rehabilitation of offenders (including the effective targeting of funding).**

**37.** The Committee notes the Cabinet Secretary’s intention to review throughcare and would welcome a timescale for the completion of this review. The Committee further recommends that the Scottish Government considers whether it would be cost-effective to extend the statutory duty on local

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<sup>33</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 421.

<sup>34</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November, Col 410.

**authorities to produce throughcare plans for all offenders, rather than just for those with sentences of four years or more.**

38. The Committee accepts that remand prisoners are in a different legal position from those who have been convicted, and that this can throw up practical challenges for the prison authorities. **Nevertheless, the Committee encourages the Scottish Government and SPS to consider what opportunities can be offered to remand prisoners on a voluntary basis to keep them stimulated while in custody.**

### The courts and legal aid

#### Overview

39. Budgets for the courts and legal aid are critical for administration of justice in both civil and criminal cases, and legal aid is especially important in ensuring access to justice. Both budgets are subject to marked reductions over the Spending Review period. Funding for the Scottish Court Service (SCS) is set to fall by 13%:

Table 5 Scottish Court Service Spending 2011-12 to 2014-15<sup>35</sup>

|              | 2011-12 plans<br>£m | 2012-13<br>budget<br>£m | 2013-14 plans<br>£m | 2014-15 plans<br>£m |
|--------------|---------------------|-------------------------|---------------------|---------------------|
| DEL Resource | 69.5                | 68.5                    | 67.4                | 65.5                |
| DEL Capital  | 10.4                | 8.5                     | 6.0                 | 4.0                 |
| <b>Total</b> | <b>79.9</b>         | <b>77.0</b>             | <b>73.4</b>         | <b>69.5</b>         |

40. Funding for Legal Aid is set to decrease by 7%:

Table 6 Legal Aid Spending 2011-12 to 2014-15<sup>36</sup>

|              | 2011-12 plans<br>£m | 2012-13 budget<br>£m | 2013-14 plans<br>£m | 2014-15 plans<br>£m |
|--------------|---------------------|----------------------|---------------------|---------------------|
| DEL Resource | 153.9               | 155.7                | 149.2               | 142.7               |
| DEL Capital  | 0.2                 | 0.1                  | 0.1                 | 0.1                 |
| <b>Total</b> | <b>154.1</b>        | <b>155.8</b>         | <b>149.3</b>        | <b>142.8</b>        |

41. Given the constraints on the overall budget and priorities elsewhere, it is inevitable that some budgets will face reductions. It does however present real challenges for those involved and risks access to and delivery of justice. Indeed, Richard Keen QC, Dean of the Faculty of Advocates, suggested that “we cannot hope to maintain access to justice in its present form in the face of these cuts”.<sup>37</sup>

#### Working in partnership

42. It is clear from all the evidence that significant changes will have to be made to the way in which these services are provided if the necessary cuts are to be made. Indeed, Eleanor Emberson, Chief Executive of the SCS told the Committee—

<sup>35</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> [Accessed 14 November 2011]

<sup>36</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> [Accessed 14 November 2011]

<sup>37</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 359.

“A large part of the joining up that is being done is to make it possible for the various bodies to live within the cuts that we face. It is a bit of a chicken-and-egg situation. It is not a case of deciding that we will do things and that, thereby, we will miraculously save more money; the money has to be saved and we are doing things to ensure that that is possible.”<sup>38</sup>

43. The Committee was encouraged by evidence of constructive partnership-working between justice service providers to tackle financial challenges, both independently and co-ordinated by the Scottish Government as part of its “Making Justice Work” programme.<sup>39</sup> Citizens Advice Scotland, the Law Society of Scotland, Scottish Legal Aid Board (SLAB) and the SCS said they were committed to this collaborative approach. However, it remains to be seen whether such work can succeed in delivering the necessary cost reductions without increasing court delays or discouraging people from seeking access to justice. This is something the Committee will wish to monitor.

#### *Proposals for reform*

44. On 3 October 2011, the Scottish Government published *A Sustainable Future for Legal Aid*, which outlines proposals for an estimated £16 million in savings. It sets out a series of economies which, if implemented successfully, should reduce costs and offset pressures on the legal aid budget. Professor Paterson of Citizens’ Advice Scotland told the Committee that—

“If you had asked me whether I would prefer to have the reforms and the cuts that are being proposed across the board in Scotland to what is being proposed in England and Wales, I would say that there is no contest: what is being proposed in England and Wales is more severe and goes in the wrong direction. I endorse the route that the [Scottish] Government has chosen of making cuts across the board and bringing in all stakeholders together.”<sup>40</sup>

45. The Committee has some concerns as to whether the proposals for legal aid, along with the “chicken-and-egg situation” referred to by Eleanor Emberson add up to an overall strategy for reform, rather than one of cost reduction, notably with respect to civil justice. The Committee further notes that the majority of Lord Gill’s recommendations on civil court reform remain outstanding since publication in 2009 and look unlikely to be implemented within this Spending Review period. The Cabinet Secretary for Justice informed the Committee that—

“We want to proceed with Lord Gill’s recommendations, but not in a big-bang way—although some will require primary legislation in the latter end of the session.”<sup>41</sup>

#### *Advice services*

46. The right advice at an early stage in a dispute or problem can prevent it from becoming an expensive legal action. However, Keith Dryburgh of Citizens Advice Scotland explained that funding for Citizens Advice Bureaux was likely to decrease by

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<sup>38</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 399.

<sup>39</sup> ‘Making Justice Work’ is a four-year Scottish Government programme containing five overarching projects, which cover both civil and criminal justice.

<sup>40</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 377.

<sup>41</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 428.

9%, or more than £1 million next year and that such budget reductions to the advice sector could have a significant impact on the justice system—

“That almost inevitably means that we will see fewer people. Funding was cut by 10% last year in England and Wales, and 7% fewer people were seen there. We work on the basis that, if we see fewer people, the justice system will probably see more people. We want to see more people, to keep people out of the justice system.”<sup>42</sup>

47. The Cabinet Secretary for Justice told the Committee that the Scottish Government was protecting “as best we can” those advice centres that it funds, and that the “Making Justice Work” programme included a project involving the advice sector, voluntary sector and legal aid budgets working together, which was at a very early stage.<sup>43</sup>

48. Some witnesses expressed concern that cuts in advice services could lead to greater pressure on courts, or that cuts in legal aid could lead to more party litigants, i.e. non-lawyers representing themselves in court. Indeed, the Lord President claimed that “concentrating for the moment on civil business, more people will have cases to bring but no means of obtaining and paying for representation. That means that we will get more people as party litigants in our civil courts (...). That has implications for the cost and efficient dispatch of business”.<sup>44</sup>

#### *Court estate*

49. Significant savings were required in the SCS budget, particularly towards the end of the Spending Review period. The Lord President stated that 40% of SCS expenditure is on court buildings, the majority of which were built in the 19th century and located in the largest communities of the time.<sup>45</sup> The SCS written submission states that a review of court locations, including the possibility of court closures, is at an early stage.<sup>46</sup> The timescale of that review is therefore currently unclear. The Committee understands that many court buildings are expensive to run and not all are up to modern standards (for example, in relation to accessibility and the separation of defence and prosecution witnesses).

50. There were concerns from Oliver Adair of the Law Society of Scotland that rationalising the courts could lead to the transfer of costs from one part of the budget to another—

“In legal aid cases, you are dealing with people who do not have a great deal of money. If you ask an accused person to travel from their home to a court some distance away, you run the danger of the person not having the money to travel and not turning up, and there then being a warrant issued for their arrest, with all the concomitant costs of the trial not proceeding.”<sup>47</sup>

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<sup>42</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 366.

<sup>43</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 415.

<sup>44</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 396-397.

<sup>45</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 390.

<sup>46</sup> Scottish Court Service. Written submission, page 3.

<sup>47</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 372.

### *Inefficiencies*

51. The Committee notes Audit Scotland's report *An Overview of Scotland's Criminal Justice System*, which highlighted significant inefficiencies in the criminal justice system and, in particular, inefficiencies in processing cases (known colloquially as 'churn'). It estimated that these inefficiencies cost at least £10 million in 2009/10.<sup>48</sup> The Lord President explained that "the worst areas of churn arise in relation to summary criminal cases, when cases come for trial, with parties not being in a position to proceed to court, because of witnesses not being present or for some other reason".<sup>49</sup>

52. The Committee welcomes the efforts being made to examine and address the costs of churn in the courts, including pilot projects led by the Crown Office and Procurator Fiscal Service (COPFS) and the Police, where text messages are used to remind witnesses they are due in court the following day and witnesses are brought to the court if they failed to turn up.<sup>50</sup> The Committee further notes that justice bodies are working collaboratively to tackle such waste in the system.

### *Video conferencing*

53. The Committee heard that other savings could be made by greater use of video-conferencing facilities in court proceedings, prison visits and police stations. In particular, the Committee is very concerned to note that a video-link between Glasgow Sheriff Court and Barlinnie prison, which had been in place for the past ten years, has been used very little.<sup>51</sup> The reasons for this lack of take up were being investigated by SLAB as part of a cross-justice project to roll out video-conferencing across the sector.<sup>52</sup>

54. Stakeholders told the Committee of their willingness to improve facilities for video-conferencing and to encourage its use, not least to save each other money<sup>53</sup>. The Cabinet Secretary for Justice said he would "drive it forward".<sup>54</sup>

### *Crown Office and Procurator Fiscal Service*

55. The Committee received written evidence from the Procurators' Fiscal Society (PFS) to suggest that a reduction in staff numbers within the COPFS had already had a negative impact on performance targets, including on the marking of cases.<sup>55</sup> The Lord Advocate wrote to the Committee to challenge the view that performance targets were not being met or that COPFS had insufficient staff.<sup>56</sup>

56. The Committee is concerned as to the lack of consensus amongst the PFS and Lord Advocate on the level of staffing and achievement of performance targets.

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<sup>48</sup> Audit Scotland. (2011) *Overview of Scotland's Criminal Justice System*. Available at: [http://www.audit-scotland.gov.uk/docs/centra/2011/nr\\_110906\\_justice\\_overview.pdf](http://www.audit-scotland.gov.uk/docs/centra/2011/nr_110906_justice_overview.pdf) [Accessed 14 November 2011]

<sup>49</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 389.

<sup>50</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 389.

<sup>51</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 418.

<sup>52</sup> Scottish Parliament Justice Committee. *Official Report*, 25 October 2011, Col 393.

<sup>53</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 393.

<sup>54</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 418.

<sup>55</sup> Procurators Fiscal Society. Written submission, page 2.

<sup>56</sup> Lord Advocate. Written submission, 28 October 2011.

## **The courts and legal aid - conclusions**

57. The Committee welcomes partnership working between justice bodies to tackle the constraints on their budgets, which appears to be complemented by the Scottish Government's "Making Justice Work" programme and proposals for legal aid reform. **The Committee will wish to monitor whether this joint working succeeds in delivering the necessary cost reduction without compromising standards, and would welcome regular updates from the Cabinet Secretary. However, the Committee has some concerns that these changes may be piecemeal solutions and therefore urges clarification from the Scottish Government as to the extent to which it intends to implement Lord Gill's reforms as part of a more comprehensive strategy for civil justice reform.**

58. The Committee recognises the benefits of a preventative approach and, to this end, believes that potential savings might be made through encouraging individuals to access advice before applying for legal aid to take their case through the courts. However, reductions to funding in the advice sector highlighted by Citizens' Advice Scotland are worrying and could result in more people taking their cases direct to the courts. **The Committee welcomes the Scottish Government's commitment to protecting the advice centres it funds and would encourage local authorities to do the same.**

59. **The Committee accepts that rationalisation of court premises could make significant savings, including, for example, where there is duplication of sheriff court and justice of the peace court buildings.** At times this may involve making difficult choices. The Committee would also encourage sharing of premises amongst other justice agencies, as has happened in some places already. **The Committee would however urge the SCS to ensure that access to justice and local needs are both taken into consideration when deciding how best to rationalise the estate.**

60. **The Committee welcomes Audit Scotland's work on establishing the costs of inefficiencies in the justice system through churn of cases and the efforts being made across justice service providers to tackle this.** It does however accept that it will never be possible to remove churn completely. The Committee would welcome in due course further details of whether greater efficiency and cash savings are being made through the improved preparation of cases and reduction of multiple court diets.

61. The Committee is disappointed at the apparent absence of progress in use of video-conferencing facilities in prison visits, court proceedings and police stations, given the potential for cost savings. It welcomes SLAB's investigation as to the reasons behind the lack of use as a first step to moving the project forward. **The Committee notes that justice bodies, along with the Cabinet Secretary for Justice, are now committed to encouraging the roll out of video-conferencing through this SLAB-led project and would urge action on this as a matter of urgency.**

## **Policing**

62. Whilst the Committee focused its budget scrutiny on prisons and the courts and legal aid, a number of issues relating to aspects of the Police budget, such as police numbers and reform, emerged during the scrutiny process.

63. Growth in Police Central Government funding at the start of the Spending Review period seeks to provide for the costs arising from implementing the Scottish Government's proposals for a single police force. The Committee will scrutinise these proposals in detail once the relevant legislation is introduced to the Parliament.

64. Core police funding in the local government settlement is set at "flat cash" throughout the Spending Review period; this equates to a real terms reduction of over 7%. Ministers are committed to maintaining police officer numbers at the present level of 17,234 throughout the Spending Review period.<sup>57</sup> The Cabinet Secretary told the Committee that the Association of Chief Police Officers in Scotland (ACPOS) and the Convention of Scottish Local Authorities (COSLA) had given their assurances that this level of police numbers could be maintained—

"We have provided funding to ACPOS and we provide the overall funding to COSLA, which is dealt with by the Cabinet Secretary for Finance, Employment and Sustainable Growth. In reaching agreement with both organisations, we have had assurances that the target for police numbers can and will be met."<sup>58</sup>

65. In written evidence, ACPOS suggested that the Scottish Government's commitment to maintaining police officer numbers "has impacted significantly on forces' budget strategies in recent years, with significant cuts to non-pay budgets, instigating voluntary redundancy/early retirement schemes and use of general reserves". It further argued—

"A continued requirement to maintain police officers over time will hit civilian staff numbers hard, most likely to the detriment of front line policing and incurring redundancy costs which forces cannot afford."<sup>59</sup>

66. When asked whether he accepted ACPOS's view on the long term impact of maintaining police numbers, the Cabinet Secretary responded—

"I do not underestimate the difficult choices that the police face, but it is for them to make the various decisions. It is up to chief constables, who are scrutinised, monitored and held to account by their boards until we move to a single service, to decide how they spend their budget."<sup>60</sup>

**67. The Committee accepts that the Scottish Government's priority of maintaining front-line police numbers at 17,234 is well-intended; however, it suggests that the Scottish Government monitors closely the knock-on effect to civilian staff to ensure that police officers are not being deployed from the front line to civilian duties.**

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<sup>57</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Resource/Doc/358356/0121130.pdf> [Accessed 14 November 2011]

<sup>58</sup> Scottish Parliament Justice Committee. *Official Report*, 1 November 2011, Col 406.

<sup>59</sup> ACPOS Financial Management Business Area, Written submission, paragraph 3.4.

<sup>60</sup> Scottish Parliament Justice Committee, *Official Report*, 1 November 2011, Col 407

## **EXTRACTS FROM THE MINUTES OF THE JUSTICE COMMITTEE**

### **5th Meeting, 2011 (Session 4) Tuesday 6 September 2011**

**Draft Budget Scrutiny 2012-13 (in private):** The Committee agreed to appoint a budget adviser and agreed a ranked list of candidates for the post.

**Work programme (in private):** The Committee considered its work programme and agreed [...] (3) to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth requesting Level 4 budget data for the Justice Portfolio.

### **7th Meeting, 2011 (Session 4) Tuesday 20 September 2011**

**Decision on taking business in private:** The Committee agreed to consider in private at future meetings [...] its approach to the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.

### **8th Meeting, 2011 (Session 4) Tuesday 27 September 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee received a briefing from its budget adviser. The Committee considered its approach to the scrutiny of the Scottish Government's Draft Budget 2012-13 and the Spending Review 2011 and agreed: (1) to focus its scrutiny on the courts and legal aid, and prisons; (2) to delegate to the Convener the targeting of the call for written evidence; (3) to agree, at its next meeting, possible witnesses to give evidence at its meeting on 25 October; (4) to invite the Cabinet Secretary for Justice to give evidence at its meeting on 1 November; and (5) to write to the Cabinet Secretary for Justice seeking clarification on aspects of the Justice budget other than those relating to the courts, legal aid and prisons.

### **9th Meeting, 2011 (Session 4) Tuesday 4 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered its approach to the scrutiny of the Scottish Government's Draft Budget 2012-13 and the Spending Review 2011 and agreed a list of organisations to invite to give evidence at its meetings on 25 October and 1 November.

### **11th Meeting, 2011 (Session 4) Tuesday 25 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Brigadier Hugh Monro CBE, HM Chief Inspector of Prisons Scotland;  
John Ewing, Chief Executive, Scottish Prison Service;  
Phil Fairlie, Chair, Prison Officers' Association Scotland;  
Tom Halpin, Chief Executive, Sacro;  
Richard Keen QC, Dean of Faculty, Faculty of Advocates;  
Lindsay Montgomery CBE, Chief Executive, Scottish Legal Aid Board;  
Oliver Adair, Member, Criminal Legal Aid Negotiating Team, and Graham Harding, Member, Civil Legal Aid Negotiating Team, Law Society of Scotland;

Keith Dryburgh, Social Policy Officer, Citizens Advice Scotland;  
Professor Alan Paterson OBE, Professor of Law and Director of the Centre for Professional Legal Studies, Strathclyde University.

The Convener declared that she was a former instructing solicitor receiving legal aid and that she had formerly done pro bono work as a solicitor with Citizens Advice Scotland. Roderick Campbell declared that he is a member of the Faculty of Advocates.

#### **12th Meeting, 2011 (Session 4) Tuesday 1 November 2011**

**Decision on taking business in private:** The Committee agreed to take item 5 in private and also to consider in private at future meetings the main themes arising from evidence received on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 and its subsequent draft report.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

The Rt Hon Lord Hamilton, Lord President and Lord Justice General;  
Eleanor Emberson, Chief Executive, Scottish Court Service;  
Kenny MacAskill MSP, Cabinet Secretary for Justice;  
Colin McKay, Deputy Director, Legal System Division, James How, Head of Access to Justice Team, Legal System Division, Richard Dennis, Head of Fire and Rescue Services Division, Joe Griffin, Acting Deputy Director, Community Justice, and Nick Bland, Head of Police Reform Unit, Scottish Government.

Roderick Campbell declared that he is a member of the Faculty of Advocates.

#### **13th Meeting, 2011 (Session 4) Tuesday 8 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered the main themes arising from evidence received on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.

#### **14th Meeting, 2011 (Session 4) Tuesday 15 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee agreed its report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.



The Scottish Parliament  
Pàrlamaid na h-Alba

## Local Government and Regeneration Committee

### Report on the Scottish Spending Review 2011 and Draft Budget 2012-13

The Committee reports to the Finance Committee as follows—

#### SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

1. The following is a summary of the Committee's conclusions and recommendations.

*The broader economic context and local government share of the Scottish budget*

**Paragraph 21 - The Committee recognises the financial constraints facing the Cabinet Secretary and notes the Cabinet Secretary's view that his proposed allocation to local government is 'tough but fair'.<sup>1</sup>**

**Paragraph 22 - The Committee notes the evidence presented by the Cabinet Secretary indicating that, by the end of the Spending Review, the share of the Scottish budget will have increased by 0.1% since the Scottish Government came to power in 2007-8, and by 5.2% if health spending is not taken into account.**

*The Spending Review and financial planning*

**Paragraph 32 - The Committee calls for the Scottish Government to consider how it can provide firmer information to local authorities on their budgets within the current legislative framework.**

*Scottish Government and COSLA Joint Priorities*

**Paragraph 37 - The Committee welcomes the ongoing relationship between the Scottish Government and COSLA and the commitment to work on joint priorities to deliver better outcomes. The Committee would welcome clarification from the Scottish Government and COSLA on the continuing relevance of the National Performance Framework and how it will be implemented through the Community Planning Partnerships.**

*The Council Tax freeze*

**Paragraph 51 - The Committee concurs with the argument presented by the Scottish Government that the continuing Council Tax freeze contributes to the alleviation of pressures on Council Tax payers in a period of economic pressure. The Committee therefore supports the continuing freeze of the Council Tax. The longer-term position in relation to local taxation is considered at paragraph 53.**

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<sup>1</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 300.

**Paragraph 52 - The Committee notes the potential Barnett consequential that could accrue to the Scottish Government as a result of the proposed council tax freeze in England. While it notes the calls from COSLA for these to be passed on to local government, the Committee acknowledges that any decisions on the allocation of such consequential are matters for the Scottish Ministers.**

**Paragraph 53 - The Committee welcomes the Cabinet Secretary's comments that the Scottish Government will pursue a debate on local taxation in this parliamentary session. The Committee intends to initiate work on the issue of local taxation and accountability with a view to contributing to this debate.**

*Non-Domestic Rates Income*

**Paragraph 73 - The Committee notes the forecast increase in NDRI as a proportion of local authority income and recognises that this is based on broadly the same premises as in previous years. The Committee asks that the Scottish Government agrees with the Committee a procedure for the provision of regular reports on NDRI collection performance in order that the Committee can monitor whether the forecast increase is being realised in the current economic circumstances. This report should also include detail on any action being taken if the increase is not being realised.**

**Paragraph 74 - The Committee shares the Scottish Government's concern over the number of vacant properties and supports the Scottish Government's efforts to realise savings by reforming empty property relief on NDR. The Committee notes that the reforms of empty property relief still provides 10% relief over the longer term, which is more advantageous than the situation in England where relief will be curtailed completely after three months.**

**Paragraph 75 - The Committee notes the objections made to the proposed Public Health Levy by representatives of the business community. However, it also considers that there are well-documented and serious health problems in Scotland directly linked to tobacco and alcohol consumption and therefore considers that the income raised by this levy will help to relieve the strain on the public purse in dealing with the health consequences of tobacco and alcohol consumption.**

**Paragraph 76 - The Committee notes the comments suggesting that there will not be full parliamentary scrutiny of the secondary legislation that introduces the Public Health Levy. The Committee assures those organisations that are concerned that it intends to give full scrutiny to the instrument following its introduction.**

*Re-profiling of capital spend*

**Paragraph 88 - The Committee recognises that the re-profiling of capital spend is necessary to support large infrastructure projects to provide much needed economic impetus to local authority areas in many parts of Scotland, as well as contributing to longer-term economic development. The Committee has concerns that the impact on local authorities will vary substantially according to their circumstances. The Committee would encourage the Cabinet Secretary to continue to discuss this issue with COSLA to ensure there are no disproportionate or unintended consequences in particular areas.**

**Paragraph 89 - The Committee recognises that the UK Government's Spending Review included significant, and – in the Committee's view – unwise cuts to capital budgets. While the Committee recognises that the Scottish Government has taken steps to mitigate the overall impact on local authorities, the Committee is nevertheless concerned by the declines in capital funding and the impact that this will have on local authority capital programmes as they are often critical to local economic conditions especially in remote and or rural areas.**

**Paragraph 90 - The Committee calls on the Scottish Government to encourage local authorities to consider and develop more innovative alternative means of borrowing, such as bonds. It also calls on the Cabinet Secretary and COSLA to continue putting pressure on the UK Government to reduce the interest rates on Public Works Loan Board loans.**

#### *Welfare Reform*

**Paragraph 99 - The Committee is extremely concerned about the potential impact of the UK Government's welfare reform proposals on local authorities in Scotland. It is alarmed by the wide-ranging nature of the proposals and the lack of detail about the proposals and their potential impact. The Committee is reporting separately on the Legislative Consent Memorandum on the Welfare Reform Bill and this report will contain more detail on the impacts of the proposals on Scottish local authorities. The evidence to the Committee shows that the impacts of the proposals include:**

- **potential additional costs for councils in managing rents, increased number of evictions, additional costs of arrears collection for both rents and council tax, and dealing with increasing social problems;**
- **further potential additional costs that can only be determined when the details are known;**
- **Significant reductions in spend in fragile local economies.**

**Paragraph 100 - The Committee is concerned that the provisions of the Welfare Reform Bill will impose additional burdens on Scottish local authorities, effectively devolving costs previously incurred by UK Government departments and therefore reiterates its call for clarity from the UK Government on the detailed proposals for welfare reform.**

**Paragraph 101 - The Committee calls on the Scottish Government to monitor the impacts on local authorities as they become known and consider whether additional funding will be required.**

#### *The Change Fund and preventative spending*

**Paragraph 125 - The Committee recognises the variety of ways in which preventative spend initiatives can help to alleviate the anticipated funding gap facing local government, while at the same time supporting improved social outcomes. It therefore welcomes the allocation of monies to the Change Funds over the spending review and believes that the Change Funds will help to support the moves towards preventative approaches that encourage partnership and outcomes-based approaches.**

**Paragraph 126 - The Committee recognises that there is no single, common definition for preventative spend. It believes that local authorities should have the autonomy to determine the approaches that are suitable to the challenges faced in their areas and is therefore reluctant to propose either the development of a definition and/or guidance in this area. However, the Committee does recognise the value of sharing best practice in this area and acknowledges the suggestion that there should be a repository of information on preventative spend initiatives.**

**Paragraph 127 - The Committee is of the view that the Change Funds represent an opportunity to promote partnership working and that there should therefore be a presumption in favour of such projects in the allocation of the Funds.**

**Paragraph 128 - The Committee acknowledges the calls for the development of criteria or guidance for the allocation of Change Fund resources. On balance, it believes that there needs to be sufficient flexibility to meet local needs and circumstances and is therefore reluctant to propose the adoption of criteria. Of the evidence it heard, the Committee would suggest that two key features of any preventative spend should be that it reduces future demand and involves joint working.**

*Existing local authority preventative spend work*

**Paragraph 131 - The Committee welcomed the broad range of evidence it received from individual local authorities and third sector bodies testifying to the preventative spending work already being undertaken. It believes that this reflects the commitment of local authorities and the third sector to improve social outcomes for people and communities in Scotland.**

*Partnership working*

**Paragraph 137 - The Committee recognises that there are a number of individual examples of public bodies that have been successful in developing partnership models despite the existing obstacles. Nevertheless, it is clear from the evidence that there are both cultural and structural obstacles to partnership working. Notable examples of these obstacles are the inconsistency of budgetary cycles and accounting procedures between local authorities and NHS boards and the focus of NHS boards on meeting HEAT targets not linked to Community Planning Partnership plans. The Committee calls on the Scottish Government to consider how these can be overcome to facilitate partnership working and the achievement of joint outcomes. The Committee would encourage much wider engagement with key stakeholders, including the private sector, in developing preventative spending proposals.**

*Outcomes-based approaches*

**Paragraph 141 - The Committee accepts there is a need for local authorities to move systematically towards outcomes-based approaches as recommended by the Christie Commission. It intends to conduct further work in this area.**

*Total place initiatives*

**Paragraph 144 - The Committee believes that there is a need to evaluate total place initiatives and consider the contribution they could make to promoting partnership working and improving outcomes in communities. It would like to see further opportunities for the benefits of total place initiatives to be shared.**

*Living wage*

**Paragraph 149 - On the basis of the evidence heard on the living wage, the Committee has decided to look at the subject in greater depth. It considers that there are positive impacts that the living wage can have on both individuals and communities and believes that there is a case to be made for the living wage to be categorised as a form of preventative spend.**

THE LOCAL GOVERNMENT AND REGENERATION COMMITTEE'S APPROACH TO  
THE SCRUTINY OF SCOTTISH SPENDING REVIEW 2011 AND DRAFT BUDGET  
2012-13

2. The Scottish Government published the *Scottish Spending Review 2011 and Draft Budget 2012-13* on 21 September 2011.

3. The Local Government and Regeneration Committee agreed at its meeting of 21 September 2011 to focus its scrutiny of the *Scottish Spending Review 2011 and Draft Budget 2012-13*<sup>2</sup> on the local government portfolio, with a specific consideration of preventative spend in response to the request by the Finance Committee that the subject committees consider preventative spend in the budget portfolios relevant to their remits. It also agreed to a calendar for taking oral evidence at three meetings following the publications of the budget document.

4. The Committee issued a call for evidence on the *Scottish Spending Review 2011 and Draft Budget 2012-13*. It received 15 responses, which can be accessed using the links contained in Annexe B. The Committee also wrote to all local authorities in Scotland to seek their views on the *Scottish Spending Review 2011 and Draft Budget 2012-13*. The Committee received 16 responses, which can also be accessed using the links contained in Annexe B. The Committee would like to thank all of those that submitted written evidence.

5. The Committee would like to thank the following witnesses who gave oral evidence to the Committee—

5<sup>th</sup> October 2011

Bob Christie, Outcomes Programme Manager, Improvement Service;  
Fiona Kordiak, Director of Audit Services, Audit Scotland;  
Jenny Stewart, Head of Infrastructure and Government - Scotland, KPMG;  
Gary Gillespie, Chief Economist, and Graeme Roy, Senior Economic Adviser, Office of the Chief Economic Adviser, Scottish Government;  
Peter Kelly, Scottish Living Wage Campaign;  
Douglas Black, Regional Organiser, UNISON; and  
Lynn Norwood, Head of People Development, Cordia (Services) LLP.

26<sup>th</sup> October 2011

Lorraine Gillies, Life Stages Programme Manager, Office of the Chief Executive, West Lothian Council;  
Andrew Lowe, Acting Chief Executive, Scottish Borders Council;

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<sup>2</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011].

SallyAnn Kelly, Acting Director, Barnardo's Scotland;  
Callum Chomczuk, Senior Policy and Parliamentary Officer, Age Scotland;  
Douglas Sinclair, Chair, Consumer Focus Scotland;  
Matt Lancashire, Social Policy Officer, Citizens Advice Scotland; and  
Ian Paterson, Chief Executive, Aberdeen Council of Voluntary Organisations.

2 November 2011

David Dorward, Chief Executive, Dundee City Council, SOLACE;  
Lynn Brown, CIPFA Directors of Finance Section;  
Marjory Stewart, CIPFA Directors of Finance Section;  
Councillor Kevin Keenan, Spokesperson for Resources and Capacity, and  
Brenda Campbell, Finance Director, COSLA; and  
John Swinney MSP, Cabinet Secretary for Finance, Employment and  
Sustainable Growth, Ian Davidson, Head of Local Government, and William  
Stitt, Assistant Team Leader, Local Government Division, Scottish  
Government.

6. The Committee would like to thank its adviser, Bill Howat, for his support and advice throughout the spending review and budget scrutiny process.

7. This report is composed of the following three key sections—

- Local Government Finance– Budgetary Trends
- Local Government Finance – Specific Issues
- Responding to the Funding Gap

#### LOCAL GOVERNMENT FINANCE – BUDGETARY TRENDS

#### **The broader economic context and local government share of the Scottish budget**

8. In the foreword to the *Scottish Spending Review 2011 and Draft Budget 2012-13*, the Cabinet Secretary for Finance, Employment and Sustainable Growth states that the context in which he presents the Scottish Government's spending plans represents “the most dramatic reduction in public spending ever imposed on Scotland by the UK Government.”<sup>3</sup> He further elaborates that “under the plans that the UK Government announced in its October 2010 Spending Review, between 2010-11 and 2014-15, we face real terms resource budget reductions of 9.2 per cent and a real terms cut to our capital budget of 36.7 per cent.”<sup>4</sup>

9. The gravity of the broader economic situation and the constraints faced by the Scottish Government in preparing the budget were recognised in most of the written and oral evidence to the Committee. The evidence confirms the inevitability of budgetary

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<sup>3</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p.iv.

<sup>4</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p.iv.

reductions and the need for local authorities, in particular, to focus on the management of those budgetary reductions at a time when the demand for services is increasing. COSLA’s written evidence encapsulates the acceptance of the financial situation facing the public sector in Scotland—

“Local Government recognises the wider financial environment and the challenges on the whole of the public sector. As such COSLA has agreed, in principle, to support the local government settlement as set out by the Government.”<sup>5</sup>

10. In the last parliamentary session the Scottish Government expressed the local government share of total Scottish Government expenditure as the percentage that local government portfolio monies and the local government monies outwith portfolio constituted of Scottish Government Total Managed Expenditure (TME). Over the course of the last Parliament, the local government share increased from 33.4% in 2007-08 to 34.5% in 2010-11. Table 1 uses the same method of calculation to establish the local government share of Scottish Government TME in cash terms over the period of the Spending Review.

**Table 1: Local Government Budget including monies outwith portfolio and Scottish Government TME 2011-12 – 2014-15, Cash Terms, £m<sup>6</sup>**

|                       | 2011-12   | 2012-13   | 2013-14   | 2014-15   |
|-----------------------|-----------|-----------|-----------|-----------|
| Local Government (LG) | 11,548.00 | 11,477.70 | 11,441.90 | 11,702.30 |
| Scottish Government   | 33,523.80 | 33,862.90 | 34,431.30 | 35,187.20 |
| LG annual % increase  | -         | -0.61     | -0.31     | 2.28      |
| LG annual change £m   | -         | -70.30    | -35.80    | 260.40    |
| LG as a % of TSG      | 34.45     | 33.89     | 33.23     | 33.26     |

11. For the Scottish Spending Review 2011 and Draft Budget 2012-13 the Scottish Government considers a more accurate reflection of Local Government share of total spending is to base the calculation on DEL plus NDRI and exclude the other volatile AME elements for NHS and Teacher pensions as these can be subject to large fluctuations from year to year and skew the comparisons. In the presentation of the Local Government settlement the Scottish Government has noted that local authorities will receive a larger share of the funds (DEL and NDRI) controlled by the Scottish Government, adjusted to reflect the re-profiling of capital support across the 2012-13 to 2015-16 period, than the position they inherited in 2007-08. The calculations are set out in Table 2 below:

<sup>5</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>6</sup> Scottish Parliament Information Centre. (2011) Draft Budget 2012-13: Local Government and Regeneration. SPICe Briefing 11-73. Available at <http://www.scottish.parliament.uk/parliamentarybusiness/42387.aspx>. [Accessed 10 November 2011].

**Table 2: Scottish Government approach to calculating local government share<sup>7</sup>**

|         | Local Government Funding £bn | SG DEL + NDRI £bn | LG % of SG DEL +NDRI |
|---------|------------------------------|-------------------|----------------------|
| 2007-08 | 10.7                         | 28.7              | 37.1                 |
| 2008-09 | 11.1                         | 30.0              | 37.2                 |
| 2009-10 | 11.6                         | 31.2              | 37.1                 |
| 2010-11 | 12.0                         | 31.3              | 38.3                 |
| 2011-12 | 11.5                         | 30.1              | 38.4                 |
| 2012-13 | 11.6                         | 30.5              | 38.0                 |
| 2013-14 | 11.5                         | 30.7              | 37.6                 |
| 2014-15 | 11.6                         | 31.2              | 37.2                 |

12. When questioned by the Committee on the share of the Scottish budget allocated to local government, the Cabinet Secretary set out the position since 2007—

“When we came to office, local government’s share of the Scottish Government departmental expenditure limit and non-domestic rates income was 37.1 per cent; at the conclusion of the spending review, the share will be 37.2 per cent, which is higher. When health is removed from the equation, local government’s share of Scottish Government DEL and NDRI rises from the 64.3 per cent it was when we came to office in 2007-08 to 68.9 per cent in 2012-13. It rises again to 69.7 per cent and settles at 69.5 per cent in 2014-15. Those figures illustrate that, as well as passing on the Barnett consequential to the health service in Scotland, we are strongly supporting local government in the remainder of the budget.”<sup>8</sup>

13. The Cabinet Secretary emphasised that “we have had to make some very difficult decisions and I do not underestimate the difficulty of the decisions that local government, in turn, will have to make. However, I firmly believe that this settlement can be described as tough but fair and represents the best that can be achieved in the circumstances.”<sup>9</sup>

14. There was little explicit comment in the evidence heard and received on the local government share of the Draft Budget for 2012-13. However, Age Scotland indicated that it has “real concerns about the disproportionate cuts made to the local government budget and the impact this could have on service users which could undermine attempts to deliver more personalised and outcome focused community services.”<sup>10</sup> Citizens Advice Scotland highlighted the consequential impact of local government budget reductions on the third sector—

“The reduction in local government income will have an impact on the third sector which derives a significant part of its income from local authority funding, with the likely impact being that many third sector organisations will reduce their services, provide a service with cuts in resources, or cease providing services altogether.

<sup>7</sup> Scottish Parliament Information Centre. (2011) Draft Budget 2012-13: Local Government and Regeneration. SPICe Briefing 11-73. Available at <http://www.scottish.parliament.uk/parliamentarybusiness/42387.aspx>. [Accessed 10 November 2011].

<sup>8</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 302.

<sup>9</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 300.

<sup>10</sup> Age Scotland. Written submission to the Local Government and Regeneration Committee.

We are concerned that local authorities will concentrate their reduced resources on statutory services at the expense of non-statutory services. Many non-statutory services, including advice, are relied upon by service users.”<sup>11</sup>

15. Similarly, the Coalition of Care and Support Providers in Scotland (CPPS) expressed its concern that the reduction in the local authority budget would have a disproportionate impact on the voluntary sector—

“The draft 2012-13 budget reduces the settlement for local authorities by 3.03% in real terms. While a reduction in funding was expected, our concern is that funding cuts have been and will continue to be disproportionately passed on to the voluntary sector, without proper consideration of the excellent track record of those services in successfully delivering Best Value and achieving outcomes. In our view, this will result in further downward pressure on the high quality of care currently provided by the voluntary sector.”<sup>12</sup>

16. The *Scottish Spending Review 2011 and Draft Budget 2012-13* states that “given the significant financial constraints on the Scottish Budget, this represents a challenging but fair settlement for local government which builds upon the financial commitment demonstrated in settlements over the previous four years.” It also acknowledges that “in order to accommodate the reduction in real terms of the overall funding package and the increased inflation and demand pressures, local government will be faced with a number of very difficult decisions.”<sup>13</sup>

17. Table 3 below sets out the local government settlement over the period 2011-12 to 2014-15.

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<sup>11</sup> Citizens Advice Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>12</sup> Coalition of Care and Support Providers in Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>13</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p227.

Table 3 - Changes to the local government settlement over the period 2011-15

| Local Government detailed spending plans (level 3) real and cash terms | 2011-12 Draft Budget £m | 2012-13 Draft Budget £m | 2013-14 Plans £m | 2014-15 Plans £m |
|--|-------------------------|-------------------------|------------------|------------------|
| <b>General Resource Grant</b>  |                         |                         |                  |                  |
| Cash   | 7,754.8                 | 7,747.6                 | 7,575.6          | 7,346.6          |
| Real terms   | 7,754.8                 | 7,558.6                 | 7,196.5          | 6,795.5          |
| <b>Non-Domestic Rates (NDR) and other AME Grants</b>                   |                         |                         |                  |                  |
| Cash   | 2,179.5                 | 2,272.0                 | 2,444.0          | 2,673.0          |
| Real terms   | 2,179.5                 | 2,216.6                 | 2,321.7          | 2,472.5          |
| <b>Support for Capital</b>   |                         |                         |                  |                  |
| Cash   | 520.9                   | 563.0                   | 517.3            | 759.7            |
| Real terms   | 520.9                   | 549.3                   | 491.4            | 702.7            |
| <b>Specific Resource Grants</b>  |                         |                         |                  |                  |
| Cash   | 599.9                   | 571.2                   | 571.2            | 571.2            |
| Real terms   | 599.9                   | 557.3                   | 542.6            | 528.4            |
| <b>Specific Capital Grants<sup>14</sup></b>                            |                         |                         |                  |                  |
| Cash   | 170.9                   | 0.0                     | 0.0              | 0.0              |
| Real terms   | 170.9                   | 0.0                     | 0.0              | 0.0              |
| <b>Total Local Government Portfolio</b>                                |                         |                         |                  |                  |
| Cash   | <b>11,226.0</b>         | <b>11,153.8</b>         | <b>11,108.1</b>  | <b>11,350.5</b>  |
| Real terms   | <b>11,226.0</b>         | <b>10,881.8</b>         | <b>10,552.2</b>  | <b>10,499.1</b>  |
| <b>Other Local Government</b>  |                         |                         |                  |                  |
| Cash   | 322.0                   | 323.9                   | 333.8            | 351.8            |
| Real terms   | 322.0                   | 316.0                   | 317.1            | 325.4            |
| <b>Total local Government Level 3</b>                                  |                         |                         |                  |                  |
| Cash   | <b>11,548.0</b>         | <b>11,477.7</b>         | <b>11,441.9</b>  | <b>11,702.3</b>  |
| Real terms   | <b>11,548.0</b>         | <b>11,197.8</b>         | <b>10,869.4</b>  | <b>10,824.5</b>  |

18. Witnesses giving oral evidence to the Committee commented on the scale of the challenge for local authorities posed by the constrained financial circumstances and the real-terms reductions in the local government settlement. For example, Jenny Stewart of KPMG commented—

“On the budget, clearly we will be in tough times for the next few years. The critical issue is the reduction in the overall revenue grant, which members will see ... will drop in real terms by about £1 billion over the spending review period. That is offset in cash terms by assumptions and increases in non-domestic rates and annually managed expenditure grants, but not in real terms. There will be significant challenges for local government in responding to that situation in terms of how efficient they can be and what costs they can drive out, how they can

<sup>14</sup> The Spending Review document indicates that the split between Support for Capital and Specific Capital Grants is to be agreed in discussion between the Scottish Government and COSLA and will be shown in the 2012-13 Local Government Finance Circular, which will be issued in December 2011.

change how they operate and how they will deliver services differently, and in terms of the switch to preventative spend.”<sup>15</sup>

19. This was echoed by Fiona Kordiak of Audit Scotland, who emphasised the delivery challenges for local authorities—

“There are clear challenges in the budget for local government in delivering with a reduced settlement. It is also facing a number of cost pressures, in particular the impact of demographics. We will be looking to see how local government manages such pressures not just in the short term, but in the long term.”<sup>16</sup>

20. One financial pressure that has a far higher cost than was anticipated when the UK Spending Review first made the level of the forthcoming cuts clear, is the high rate of inflation. The evidence from local authorities demonstrates that this will increase costs for local authorities in a period when there is a “flat cash” settlement. The evidence also confirms that the combination of demographic changes, higher inflation and the Welfare Reform proposals will lead to much higher demand for council services than anticipated, particularly in personal care.

**21. The Committee recognises the financial constraints facing the Cabinet Secretary and notes the Cabinet Secretary’s view that his proposed allocation to local government is ‘tough but fair’.**<sup>17</sup>

**22. The Committee notes the evidence presented by the Cabinet Secretary indicating that, by the end of the Spending Review, the share of the Scottish budget will have increased by 0.1% since the Scottish Government came to power in 2007-8, and by 5.2% if health spending is not taken into account.**

23. A later section of this report considers the responses to the challenge posed by reduced budgets in more detail.

### **The Spending Review and financial planning**

24. The provisional capital and revenue allocations to individual local authorities for 2012-13 will be announced in early December 2011. The Scottish Government will then consult with COSLA and local authorities more generally before the Local Government Finance (Scotland) Order is formally lodged by the Scottish Government in early 2012. Local authorities will then have the information to allow them to set their own budgets for formal approval no later than mid-March 2012.

25. In evidence to the Committee, the Cabinet Secretary confirmed that “we will also honour our commitment to introducing a new floor by providing additional funding to

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<sup>15</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 178.

<sup>16</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 180.

<sup>17</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 300.

ensure that all local authorities receive at least 85 per cent of the Scottish revenue funding average.”<sup>18</sup> The draft budget provides no detail on how this will be achieved.

26. In written evidence to the Committee, COSLA noted that while the local government settlement set out in the Draft Budget included flat cash for each of the three years of the spending review that it was “important for the Committee to recognise however that this will not always translate to flat cash at a local level.”<sup>19</sup>

27. A number of individual local authorities that submitted written evidence to the Committee indicated that they were unable to provide a view on the Draft Budget until the individual allocations were known.

28. While there may be variations in the allocations to individual local authorities, the, local authorities have a statutory responsibility to set a balanced budget. The *Scottish Spending Review 2011 and Draft Budget 2012-13* makes reference to this—

“Local authorities do, however, have a statutory duty to bring forward a balanced budget for the settlement provided and they will do so by a combination of actions. These may well include overall reductions in staffing levels and the level of pay within the workforce, the scope for increased efficiencies including service redesign and the possibility of improving on their ability to generate additional income.”<sup>20</sup>

29. The evidence submitted by some local authorities to the Committee indicated that they would welcome more long-term certainty on budgetary allocations. For example, Fife Council highlighted the lack of clarity on the status of the figures provided in the Spending Review for 2013-14 and 2014-15 and called for the individual allocations to local authorities to be made for the next three budgetary years—

“The Council welcomes the fact that the spending review covers a three year-period. However, it is noted that the Scottish Government has set a draft budget for 2012-13 only, with “spending plans” for the subsequent two years. It is unclear at this stage whether the Local Government Finance Settlement in December will provide 3 year figures at an individual local authority level. To assist future financial planning and effective decision making it would be helpful if grant figures at individual local authority level were provided for each of the next 3 years.”<sup>21</sup>

30. Aberdeenshire Council also urged the Scottish Government to move towards a longer-term approach to budgetary planning—

“Whilst recognising the challenges of the election cycle, the Council would urge the Scottish Government to maintain the principles of a Spending Review covering at least a three-year period. Aberdeenshire Council maintains a rolling three-year budget, and is in the process of moving to a five-year budget. If previous practice is anything to go by, in 2012 the Scottish Government will only announce updated

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<sup>18</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 300.

<sup>19</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>20</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011] p.227.

<sup>21</sup> Fife Council. Written submission to the Local Government and Regeneration Committee.

grant figures for 2013/14 and 2014/15 i.e. a two year settlement. The Council would urge the Scottish Government to retain the principles of rolling budgets and a long-term financial strategy.”<sup>22</sup>

31. Glasgow City Council and Scottish Borders Council expressed a concern that the lack of long-term financial planning could impact upon community planning partners. Scottish Borders Council stated—

“While understanding fully the constraints under which the Scottish Government is operating, Councils, and their community planning partners, are increasingly recognizing that longer term strategic planning is the key to delivering the changes which will be required to assure public services can operate effectively within a framework of reduced resources. In this regard the continued focus on one year funding is a limiting factor.”<sup>23</sup>

**32. The Committee calls for the Scottish Government to consider how it can provide firmer information to local authorities on their budgets within the current legislative framework.**

### **Scottish Government and COSLA Joint Priorities**

33. In the previous parliamentary session, the Scottish Government and COSLA Presidential Team agreed a Concordat in 2007 setting out the “terms of a new relationship between the Scottish Government and local government, based on mutual respect and partnership”.<sup>24</sup> This underpinned the funding to be provided to local government over the period 2008-09 to 2010-11. In 2010, a letter from the Cabinet Secretary for Finance and Sustainable Growth and the President of COSLA set out the terms of an agreement for the 2011-12 budget. Individual local authorities were required to write to the Scottish Government to indicate whether they accepted the full package contained within this agreement. Any council that did not agree to the full package would receive a 6.4% reduction in revenue funding instead of a 2.6% reduction. All local authorities in Scotland accepted this package.

34. In the foreword to the *Scottish Spending Review 2011 and Draft Budget 2012-13*, the Cabinet Secretary for Finance, Employability and Sustainable Growth sets out the approach taken in relation to local authorities over the current Spending Review period in the new parliamentary session—

“We have discussed and agreed with the COSLA leadership an approach to delivering Joint Priorities between national and local government that produces a settlement which will enable local authorities to maintain the delivery of shared commitments that impact positively on households throughout the country:

- Freezing the council tax;
- Funding Police Boards to allow them to maintain 1,000 additional police officers on our streets;

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<sup>22</sup> Aberdeenshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>23</sup> Scottish Borders Council. Written submission to the Local Government and Regeneration Committee.

<sup>24</sup> Scottish Government. (2007) *Concordat between the Scottish Government and local government*. <http://www.scotland.gov.uk/Publications/2007/11/13092240/concordat> [Accessed 14 November 2011]

- Maintaining teacher numbers in line with pupil numbers and securing places for all probationers under the teacher inductions scheme; and
- Meeting the needs of our most vulnerable and elderly through the NHS and councils working together to improve adult social care.”<sup>25</sup>

35. In oral evidence to the Committee, the Cabinet Secretary emphasised that “this latest settlement remains firmly set in the context of the on-going relationship between Scottish Government and local authorities and our commitment to working together on joint priorities to deliver better outcomes that are critical for people in communities across Scotland.”<sup>26</sup>

36. While explicit mention is not made to the previous Concordat, the *Scottish Spending Review 2011 and Draft Budget 2012-13* states that—

“Local government remains committed to and contributes directly to the delivery of all 15 national outcomes which embody our Joint Priorities. These are given expression in the agreement and implementation of Single Outcome Agreements through Community Planning Partnerships so that national objectives are met in a way that takes account of distinctive local circumstances and priorities.”<sup>27</sup>

**37. The Committee welcomes the ongoing relationship between the Scottish Government and COSLA and the commitment to work on joint priorities to deliver better outcomes. The Committee would welcome clarification from the Scottish Government and COSLA on the continuing relevance of the National Performance Framework and how it will be implemented through the Community Planning Partnerships.**

#### LOCAL GOVERNMENT FINANCE - SPECIFIC ISSUES

38. In the written evidence received from COSLA and individual local authorities, a number of specific issues were raised about the settlement. These concerned the council tax freeze, non-domestic rates, the reform of empty property relief, the public health levy, the re-profiling of capital spend and the impact of the UK Government’s welfare reform proposals. The following sections of this report consider each of these issues in turn.

#### **The Council Tax freeze**

39. Local authorities accepted a Council Tax freeze over the course of the last parliament as part of the Concordat and the 2010 agreement between the Scottish Government and COSLA Leadership. The Council Tax has therefore been frozen since 2008-9, with the provision of £70m compensation per annum by the Scottish Government.

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<sup>25</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011] p.vii.

<sup>26</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 300.

<sup>27</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011] p. 226.

40. The *Scottish Spending Review 2011 and Draft Budget 2012-13* identifies the council tax freeze as contributing to the Scottish Government's commitment to a more equal Scotland. It states that, "The council tax freeze, although providing welcome relief to all council tax payers in these difficult economic times, has been shown to provide the greatest benefit, as a proportion of net household income, to households in the lower deciles."<sup>28</sup>

41. The Scottish Government also sees the council tax freeze as contributing to the Social Wage, which "asks those who work in the public sector to accept pay restraint while the Government will support households through measures such as the council tax freeze, free education and the abolition of prescription charges."<sup>29</sup>

42. In written evidence to the Committee, COSLA raised two issues in relation to the Council Tax freeze—

"In terms of council tax, in the past an additional £70m has been made available for local government to freeze the council tax. The 2012-15 spending review settlement does not however include any additional resources to freeze the council tax. A second issue relating to council tax is that the Scottish government has received consequentials in the order of £67.5m as a result of the UK Government awarding additional funding of £805m to English Councils to freeze their council tax. COSLA acknowledges that this money comes unhypothecated to Scotland but will make a strong case to the Scottish Government that this money should be made available to local government to support the council tax freeze in Scotland."<sup>30</sup>

43. Individual local authorities raised a variety of concerns relating to the ongoing freeze of the Council Tax. Aberdeenshire Council stressed the lack of manoeuvre that local authorities had in relation to the policy—

"The decision of the Scottish Government to withhold grant unless the Council agrees to freeze council tax has placed the Council in an impossible position, with no alternative other than to agree. The continuation of a freeze will further erode the council tax base and reduce future options for additional income."<sup>31</sup>

44. Glasgow City Council perceived the failure to agree to the Council Tax freeze would be sanctioned by a loss of funding and that the year-on-year freeze was contributing to a decline in the proportion of local authority revenue as a share of its total budget—

"The 2012–2013 budget continues to include sanctions if commitments are not met by local authorities. The main sanction continues to be for the Council tax freeze where local authorities will lose funding if they increase Council tax. A Local Taxation Working Group which reported to the Glasgow City Council in 2009 saw the freeze as 'not being desirable or sustainable' since this sanction

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<sup>28</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p. 226.

<sup>29</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p.viii.

<sup>30</sup> COSLA. Written submission to the Local Government and Regeneration Committee. Written submission to the Local Government and Regeneration Committee.

<sup>31</sup> Aberdeenshire Council. Written submission to the Local Government and Regeneration Committee.

effectively dilutes the power of the local authorities to set their own tax. The continuing freeze is also reducing the overall proportion of funding from local taxation which for Glasgow is now at a level of around 16%.<sup>32</sup>

45. North Lanarkshire Council argued that “...the imposition of a freeze in council tax limits the flexibility of the Council to react to local issues within the very challenging financial environment.” It also observed that—

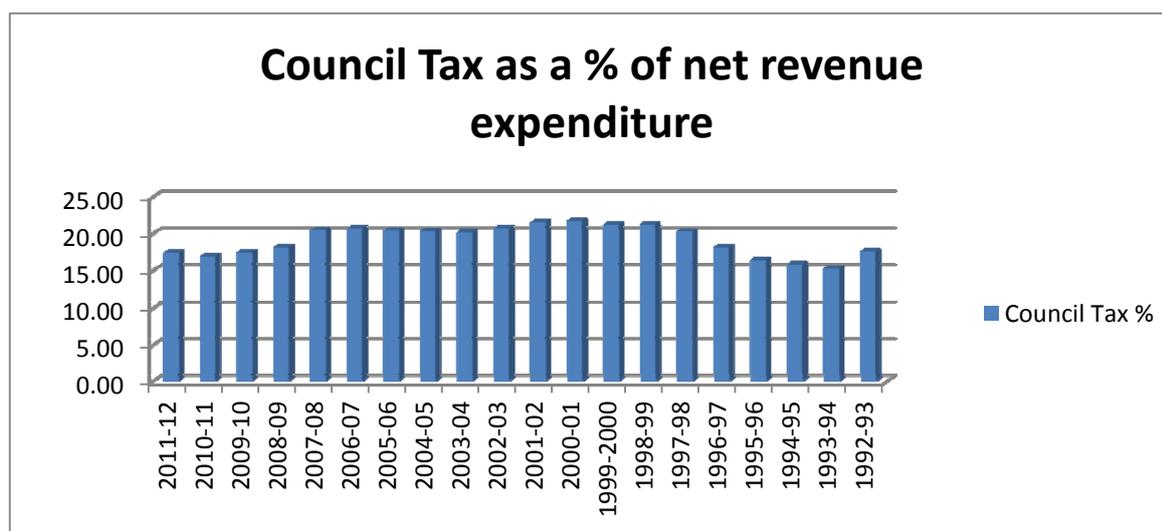
“The freeze in council tax means that income received from local council tax payers has been contributing less and less each year proportionately to the Council’s total income, potentially calling into question the future of local taxation. At the very least, the reduced share of total resources coming from council tax will increase the “gearing effect” of changes in government grant on any future council tax decisions.”<sup>33</sup>

46. Scottish Borders Council raised a concern as to whether the Council Tax freeze might impact upon the perceived credit worthiness of local authorities and thereby the cost of borrowing—

“One unintentional consequence of the on-going Council Tax freeze may manifest itself in a risk to the credit rating of local authorities, and central government and Scottish Councils must be vigilant to this risk. The inability to vary income through tax raising powers at a time where Councils are facing pressure through long term contractual commitments (e.g. PPP) and a squeeze on capital may cause concerns to lending institutions with a consequent impact on borrowing costs.”<sup>34</sup>

47. The following graph shows the percentage of council tax as a percentage of net revenue expenditure.

**Figure 1 – Council Tax as a percentage of net revenue expenditure**



<sup>32</sup> Glasgow City Council. Written submission to the Local Government and Regeneration Committee.

<sup>33</sup> North Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>34</sup> Scottish Borders Council. Written submission to the Local Government and Regeneration Committee.

48. When questioned by the Committee on how the council tax was accounted for in the local government settlement, the Cabinet Secretary explained that “I incorporated in the overall settlement resources to maintain the council tax freeze. Making it an implicit part of the resources for local government will enable it to see clearly the resources that it will have over three years to support its activities.”<sup>35</sup>

49. The Committee also questioned the Cabinet Secretary on whether the five-year council tax freeze provided an appropriate opportunity to “look at the whole basket of taxes that are available to local government?”<sup>36</sup>

50. The Cabinet Secretary clarified the Scottish Government’s position in relation to local taxation in the following terms—

“The Government said in its manifesto that, although we believe in a local income tax based on ability to pay, we do not think that this is the period to embark on that change. Rather, this is the period to embark on a process of dialogue to get us to a position of wider consensus. Both of us will recollect that Parliament in the previous session was firmly divided on the question of local authority taxation. At that stage, we did not know the outcome of the elections, but the view of the Government in its manifesto, which the Government will stick to, is that this is an opportunity to build agreement about how to progress on local taxation. The arguments about the council tax in principle have not gone away. We have taken the edge off many of the questions around the council tax and its level by freezing it since 2008-09 but, clearly, there is a debate to be had, which the Government will pursue in this session of Parliament.”<sup>37</sup>

**51. The Committee concurs with the argument presented by the Scottish Government that the continuing Council Tax freeze contributes to the alleviation of pressures on Council Tax payers in a period of economic pressure. The Committee therefore supports the continuing freeze of the Council Tax. The longer-term position in relation to local taxation is considered at below at paragraph 53.**

**52. The Committee notes the potential Barnett consequentials that could accrue to the Scottish Government as a result of the proposed council tax freeze in England. While it notes the calls from COSLA for these to be passed on to local government, the Committee acknowledges that any decisions on the allocation of such consequentials are matters for the Scottish Ministers.**

**53. The Committee welcomes the Cabinet Secretary’s comments that the Scottish Government will pursue a debate on local taxation in this parliamentary session. The Committee intends to initiate work on the issue of local taxation and accountability with a view to contributing to this debate.**

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<sup>35</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 302.

<sup>36</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 303.

<sup>37</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 303.

## Non-Domestic Rates Income

54. Receipts from non-domestic rates income (NDRI) are forecast to increase significantly over the Spending Review period. Table 1 below shows the change in the proportion of local government revenue support, provided by the Scottish Government, which NDRI constitutes over the period 2008-09 to 2014-15.<sup>38</sup> The table indicates that Non-Domestic Rate Income will increase from 20.9% of local government revenue support in 2011-12 to 24.3% in 2014-15.

**Table 3 - Non Domestic Rate Income as a Proportion Local Government Revenue provided by the Scottish Government, 2008-09 to 2014-15, £m, Cash terms**

|  | 2008-09                                      | 2009-10    | 2010-11    | 2011-12   | 2012-13    | 2013-14    | 2014-15    |
|--|--|------------|------------|-----------|------------|------------|------------|
| NDRI   | 1,962.800                                    | 2,165.100  | 2,068.200  | 2182.000  | 2,263.000  | 2,435.000  | 2,664.000  |
| Local Government Revenue (LGR)   | 9,992.174                                    | 10,602.816 | 10,688.368 | 10431.789 | 10,923.700 | 10,933.600 | 10,951.600 |
| NDRI as % of LGR   | 19.6   | 20.4       | 19.4       | 20.9      | 20.7       | 22.3       | 24.3       |
| Sources:   |  |            |            |           |            |            |            |
| 2008-09  | Local Government Finance Circular No.1 /2008 |            |            |           |            |            |            |
| 2009-10  | Local Government Finance Circular No. 2/2009 |            |            |           |            |            |            |
| 2010-11  | Local Government Finance Circular No.1/2010  |            |            |           |            |            |            |
| 2011-12  | Local Government Finance Circular No. 4/2011 |            |            |           |            |            |            |
| 2012-13 to 2014-15:  | Draft Budget 2012-13 Table 16.02             |            |            |           |            |            |            |
| For 2012-13 to 2014-15, local government revenue equals 'total local government level 3' less AME Grants and Support for Capital |  |            |            |           |            |            |            |

55. A number of factors contribute to the forecast increase in NDRI. These include: the non-domestic rates poundage being linked to the September Retail Prices Index in a period when high levels of inflation are forecast, anticipated buoyancy in NDR income, anticipated savings from the reform of empty property relief, anticipated revenues from the “Public Health Levy” announced in the draft budget statement and the impact of appeals losses which is expected to lead to a reduction in assumed income in earlier years and growth in later years.

56. In evidence to the Committee, the Cabinet Secretary for Finance, Employability and Sustainable Growth set out the key assessments that underpinned the forecast—

“The forward projections for non-domestic rates income are informed by the assessments of inflation at September 2011, 2012 and 2013 as well as by assessments of economic growth and losses from appeals. The assessments that have been made are robust—I considered them carefully before including them in the budget document—and I have confidence in the underlying data.”<sup>39</sup>

<sup>38</sup> It is important to note that the figures in the table are based on a purely numerical calculation and do not take account of a range of factors which impact on the amount of Non-Domestic Rate Income which is collected, such as the stage in the revaluation cycle when monies are being collected, inflation, or the impact of appeals.

<sup>39</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 305.

57. The Scottish Retail Consortium articulated concerns about the increase in non-domestic rates for retailers. It argued that the market for retail property was limited, thereby “raising both property costs and non-domestic rates to significantly higher levels than average.”<sup>40</sup> It pointed out that—

“Total business rates in Scotland are around £2.2bn per annum and retailers already pay around one-quarter of that, the highest proportion of any sector. The proposed supplement would only exacerbate the disproportionate nature of the burden which falls on parts of the retail sector. This proposal would impose substantial additional costs, running to tens of millions of pounds over the next three years for the companies concerned, over and above other steep increases in businesses rates.”<sup>41</sup>

58. Lynn Stewart of CIPFA Directors of Finance Section raised the difficulty for those businesses just over the threshold for paying non-domestic rates—

“The point is well made that there is a bit of a cliff edge with non-domestic rates. That is difficult for businesses, which are asking to buy time on the debt that is due on their rates. Payment arrangements are quite inflexible, so I have sympathy with the traders on that point. We should consider how we can be more flexible. ...The traders feel that there is a cliff edge, and I completely understand that.”<sup>42</sup>

59. When this point was raised with the Cabinet Secretary, he indicated that he did “not have any plans at this stage to change the payment arrangements for non-domestic rates.”<sup>43</sup>

60. In response to concerns expressed about the level of this increase in NDRI as a proportion of local government revenue, the Cabinet Secretary emphasised that the “Scottish Government guarantees to provide local government with the combined total of NDRI and Resource funding”<sup>44</sup> and that therefore “there should not be any issue of vulnerability from the local government perspective”<sup>45</sup> thereby reiterating the position set out in the *Scottish Spending Review 2011 and Draft Budget 2012-13*, which states—

“The Scottish Government guarantees the combined general revenue grant and distributable non domestic rate income figure, approved by Parliament, to each local authority. A drop in non domestic rate income is compensated for by an increase in general revenue grant and vice versa.”<sup>46</sup>

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<sup>40</sup> Scottish Retail Consortium. Written submission to the Local Government and Regeneration Committee.

<sup>41</sup> Scottish Retail Consortium. Written submission to the Local Government and Regeneration Committee.

<sup>42</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 276-7.

<sup>43</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 307.

<sup>44</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 305.

<sup>45</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 305.

<sup>46</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p.225.

61. The Scottish Government has indicated that it expects there to be “higher levels of economic growth as we move through the spending review period and appeals will be settled at different stages over the three year spending review period.”<sup>47</sup>

62. Gary Gillespie, the Scottish Government’s Chief Economist, provided more detail in oral evidence to the Committee on the statistical base for the NDRI projections explaining that the increase is primarily linked to the Retail Prices Index and the increase in the poundage rate —

If you look at the NDRI figures, what is projected over the period is interesting on a number of fronts. The bulk of the change—more than 50 per cent—relates to the retail prices index and how the poundage rate has increased. ...UK business rates are projected to increase by 25 per cent. The comparable figure for Scotland over the same period, with no policy change, is 26 per cent. I do not get a sense that the NDRI numbers are any more risky or significant than in previous periods. ... It is a robust source of revenue. Even during the downturn and the recession in 2008-09 and 2009-10, when all other Government revenues collapsed, there was still growth in NDRI.<sup>48</sup>

63. Some of the evidence received by the Committee suggested that the increase in the proportion of NDRI in the context of the continuing council tax freeze raised issues about the accountability of the local authorities to their local electorate. This point was raised by the Committee with the Cabinet Secretary, who argued that the Scottish Government’s relationship with local government and the reduction of ringfencing had strengthened the accountability of local authorities to the communities that they served—

“...the Government has strengthened the relationship between local government and its communities by removing in excess of £1 billion of ring fencing and constraints on the way that local government spends the resources that are allocated to it. That gives local government more flexibility over its resources than it had when they were ring fenced, but it equally strengthens the requirement for local government to be in touch with and responsive to the aspirations within communities.”<sup>49</sup>

64. In terms of the savings from the reform of empty property relief, the Scottish Government estimates that the reform will realise savings of £18m per annum from 2013-14 onwards. It is anticipated that reform will involve retaining the current 100% relief for the first three months that a property is empty and then allowing 10% relief for an indefinite period with exemptions for industrial and listed properties, which will continue to receive 100% relief. The Scottish Government believes that the proposed reforms “will introduce incentives to bring vacant premises back into use and reduce the prevalence of empty properties in Scotland’s town centres, while still maintaining empty property relief at more generous levels than available in the rest of the UK.”<sup>50</sup>

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<sup>47</sup> Scottish Government 2011b.

<sup>48</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 197.

<sup>49</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 305.

<sup>50</sup> Scottish Government 2011b.

65. The Scottish Property Federation observed that as 10% relief would still be available, the “policy is not therefore as draconian as it is in England” where no relief is available after three months. However, the Scottish Property Federation argued that “it is ... a tax on failure in many ways and we believe that the 50% relief should not be lowered” as if “properties are empty this is because of lack of demand and confidence.”<sup>51</sup> The Scottish Property Federation also challenged the Scottish Government’s view that the reform of empty property relief would provide for the return of empty properties to use, arguing that research had found that the “the policy of reducing empty property rate relief had not influenced occupancy levels but had impacted negatively upon rents. In time reduced rental values should feed through to the revaluation.”<sup>52</sup>

66. CBI Scotland described the proposal to reform empty property relief as “very concerning”, observing that “commercial buildings and premises are rarely left empty by design, particularly as they do not generate an income, and this new tax could see private sector investment in new developments or regeneration projects curtailed, particularly in more economically-deprived areas which can be harder to let.”<sup>53</sup> CBI Scotland urged the Committee to “ensure a full Business & Regulatory Impact Assessment is forthcoming.”<sup>54</sup>

#### *The Public Health Levy*

67. The other new source of revenue that will contribute to an increase in NDRI is the proposed supplement to be applied from April 2012 onwards on business rates for large retailers selling both tobacco and alcohol, referred to as the “Public Health Levy”. It is projected to raise £30 million in 2012-13, rising to £40 million thereafter.

68. This proposal has provoked a strong response from the business community. The CBI stated that it was “extremely alarmed at the decision to levy a new business rates tax from next April on larger retailers which sell alcohol and tobacco ... and the uncertainty this unexpected announcement has caused.”<sup>55</sup> It raised particular concerns about the lack of detail on this supplement and whether it was consistent with the Scottish Government’s commitment to make Scotland the most competitive place to do business in UK.

69. CBI Scotland called for a Business and Regulatory Impact Assessment (BRIA) in relation to both the proposals on empty property relief and the Public Health Levy.

70. When questioned by the Committee on the call for a BRIAs to be conducted before introducing subordinate legislation on these two proposals, the Cabinet Secretary responded—

“I have not undertaken an impact assessment of those two specific measures—the public health levy and empty property relief—and I do not plan to. I consider that carrying out an impact assessment would be disproportionate to the size of the

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<sup>51</sup> Scottish Property Federation. Written submission to the Local Government and Regeneration Committee.

<sup>52</sup> Scottish Property Federation. Written submission to the Local Government and Regeneration Committee.

<sup>53</sup> CBI Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>54</sup> CBI Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>55</sup> CBI Scotland. Written submission to the Local Government and Regeneration Committee.

revenues that are being raised. However, as the budget makes clear, I am involved in consultation on the contents of the budget, and many points are being made to me about both the public health levy and empty property relief.”<sup>56</sup>

71. The Scottish Property Federation argued in written evidence to the Committee that “an additional levy of this order could therefore have a major impact on the profitability and sustainability of these stores which deliver valuable goods, services and employment across Scotland.”<sup>57</sup> It also said that an “additional levy would make future development less viable” and advised the “minister to reconsider the implications of the Levy for the long term benefit of the Scottish economy.”<sup>58</sup>

72. The Scottish Retail Consortium also expressed concerns relating to the introduction of the statutory instrument for the levy, pointing out that there will be no public consultation on the detail and that “neither will there be full parliamentary scrutiny of the new supplement given the use of secondary, rather than primary, legislation, nor a Business and Regulatory Impact Assessment.”<sup>59</sup>

**73. The Committee notes the forecast increase in NDRI as a proportion of local authority income and recognises that this is based on broadly the same premises as in previous years. The Committee asks that the Scottish Government agrees with the Committee a procedure for the provision of regular reports on NDRI collection performance in order that the Committee can monitor whether the forecast increase is being realised in the current economic circumstances. This report should also include detail on any action being taken if the increase is not being realised.**

**74. The Committee shares the Scottish Government’s concern over the number of vacant properties and supports the Scottish Government’s efforts to realise savings by reforming empty property relief on NDR. The Committee notes that the reforms of empty property relief still provides 10% relief over the longer term, which is more advantageous than the situation in England where relief will be curtailed completely after three months.**

**75. The Committee notes the objections made to the proposed Public Health Levy by representatives of the business community. However, it also considers that there are well-documented and serious health problems in Scotland directly linked to tobacco and alcohol consumption and therefore considers that the income raised by this levy will help to relieve the strain on the public purse in dealing with the health consequences of tobacco and alcohol consumption.**

**76. The Committee notes the comments suggesting that there will not be full parliamentary scrutiny of the secondary legislation that introduces the Public Health Levy. The Committee assures those organisations that are concerned that it intends to give full scrutiny to the instrument following its introduction.**

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<sup>56</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 305.

<sup>57</sup> Scottish Property Federation. Written submission to the Local Government and Regeneration Committee.

<sup>58</sup> Scottish Property Federation. Written submission to the Local Government and Regeneration Committee.

<sup>59</sup> Scottish Retail Consortium. Written submission to the Local Government and Regeneration Committee.

## Re-profiling of capital spend

77. The *Scottish Spending Review 2011 and Draft Budget 2012-13* makes provision for the re-profiling of local authority capital spend. In cash terms, the local government capital allocation will decline by £128.8m in 2012-13 from £691.8m in 2011-12 to £563m in 2012-13, to £517.2m in 2013-14 and then will increase to £759.7m in 2014-15.

78. The *Scottish Spending Review 2011 and Draft Budget 2012-13* provides the following explanation of the re-profiling of the capital allocations to local authorities—

“The capital settlement, although calculated on maintaining share of the reduced capital share, (-£8.8 million/-£74.5 million/-£52.1 million), has been further reprofiled with reductions in 2012-13 and 2013-14 of £120 million and £100 million respectively with a corresponding increase in 2014-15 of £120 million, with the remaining £100 million to be added back in 2015-16. In the light of the very constrained capital position, the Government wishes to maximise the availability of capital spending. The Government recognises that local government has the power to borrow in order to supplement capital budgets and we will work with colleagues in local government to see to what extent this can sensibly be used to maximise capital expenditure, which is critical to economic recovery.”<sup>60</sup>

79. COSLA commented in the following terms on the reduction in funding, the re-profiling of capital and the potential cost of prudential borrowing in the following terms—

“Whilst recognising the overall reduction in capital funding at a national level, the reduction in local government funding, coupled with the reprofiling will impact on local government’s ability to deliver on capital programmes and local capital plans will need to be considered in light of this. Local Government recognises the importance of capital investment to stimulate the economy however this can only be done on an affordable basis. Local Government does have the capacity to borrow in line with the Prudential Code but crucially this requires a revenue stream to support the borrowing costs. As highlighted above the revenue budget is also under pressure and therefore local authorities will need to take decisions in line with their priorities at a local level.”<sup>61</sup>

80. Gary Gillespie, the Scottish Government’s Chief Economist, argued that statistical evidence showed that “although capital investment over the period has fallen in terms of Scottish Government-funded investment, non-profit distribution and the annual switches from revenue to capital make up the shortfall.”<sup>62</sup> He also argued that “many of the national schemes that will be funded will be in local authority areas, so that will provide a stimulus locally. National-led activity benefits local authorities.”<sup>63</sup>

81. CBI Scotland welcomed the Scottish Government’s decision to re-profile spending to support “important infrastructure projects such as renewables, affordable housing and

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<sup>60</sup> Scottish Government. (2011) *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://scotland.gov.uk/Publications/2011/10/04153155/0> [accessed 8 November 2011], p.228.

<sup>61</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>62</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 195.

<sup>63</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 195.

transport.”<sup>64</sup> It welcomed the contribution that this would make to employment levels and economic development, arguing that “The capital projects identified in the Budget will provide much-needed employment in the short term and help to build Scotland’s economic capacity in the longer term, as well as minimising future maintenance bills and congestion.”<sup>65</sup>

82. Lynn Brown of CIPFA Directors of Finance Section observed that “most directors of finance will have taken a cautious approach to new capital expenditure that was not already in the plans.”<sup>66</sup> This was supported by evidence from, Marjory Stewart of CIPFA Directors of Finance Section, who explained that due to the expectation, based on the UK Spending Review, that capital spending would be cut by 50% over the UK Spending Review period, Dundee City Council’s position was better than expected. However, she did add that—

“The re-profiling does not mean that we can increase our capital borrowing through prudential borrowing. We cannot do that. The most critical aspect of that is our revenue budget and the council tax freeze. We cannot afford to borrow any more money, so we have our current borrowing capacity, our capital grant and asset sales. Asset sales are at an all-time low. Virtually no asset sales are allowed for, because it is difficult to sell assets at an economic value.”<sup>67</sup>

83. In written evidence to the Committee, the varying positions of local authorities in relation to capital re-profiling emerged as individual local authorities provided information on the potential impact of the reduction and re-profiling of capital spend. For example, East Ayrshire Council stated its intention to maintain progress with the Council’s agreed capital programme but indicated that the “reduction and rephasing of capital grant will have an impact on the funding for the capital programme and will, therefore, create additional pressures on the revenue budget as a consequence of the requirement for additional borrowing.”<sup>68</sup> North Lanarkshire Council similarly observed that the cost of additional borrowing to compensate for the reduction in grant “would have to be found from already severely constrained revenue budgets so that it is difficult to see how this can be achieved within the current financial settlement.”<sup>69</sup>

84. Fife Council estimated that the decline in the capital grant and the re-profiling had “resulted in an estimated reduction in capital resources over the period of £127m” thereby necessitating a “full review of the Council’s Capital Investment Plan resulting in the removal of projects from the plan, re-phasing and reducing the budget available for some other projects.”<sup>70</sup> Fife also calculated that should it decide to borrow to replace the re-profiling of capital grant that this would cost approximately £1.2m. Glasgow City Council estimated that to maintain its capital programme it would need to increase its borrowing at an estimated cost of “an extra £3million over the two years.”

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<sup>64</sup> CBI Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>65</sup> CBI Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>66</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report 2 November 2011*, Col 289.

<sup>67</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report, 2 November 2011*, Col 289.

<sup>68</sup> East Ayrshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>69</sup> North Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>70</sup> Fife Council. Written submission to the Local Government and Regeneration Committee.

85. The CIPFA Directors of Finance evidence on the lack of viability of using asset sales was evidenced by an example from Scottish Borders Council. It explained that the sale of three former high school properties had proved “impossible in the current financial climate, causing a significant loss of capital receipts whilst incurring ongoing upkeep costs.”<sup>71</sup>

86. In evidence to the Committee, COSLA indicated that it had “looked at whether bonds provided a mechanism to borrow money.”<sup>72</sup> The Committee raised the potential for local authorities to use alternative forms of financing such as bonds with the Cabinet Secretary. He responded—

“The Government is taking forward a range of innovative interventions to do that. The national housing trust, for example, is perhaps the most innovative approach that we have in the housing sector. I would encourage local authorities to look at ways in which they can maximise the resources that they have available for capital investment, particularly given the challenges that we face at this time in terms of the growth of the economy.”<sup>73</sup>

87. The Committee also asked both COSLA and the Cabinet Secretary what discussions had been held with the UK Government on the increase to the Public Works Loan Board interest rates that had been introduced in the UK Spending Review in 2010. The Cabinet Secretary confirmed that the Scottish Government “has expressed its concern over interest rates for the Public Works Loan Board, and in following up this exchange I will certainly make further representations to the UK Government”.<sup>74</sup> The Cabinet Secretary also indicated that, “There is an opportunity for pension funds to be better utilised in supporting long-term capital investment in Scotland.”<sup>75</sup> COSLA confirmed that this matter had been raised in a meeting with the Secretary of State for Scotland.

**88. The Committee recognises that the re-profiling of capital spend is necessary to support large infrastructure projects to provide much needed economic impetus to local authority areas in many parts of Scotland, as well as contributing to longer-term economic development. The Committee has concerns that the impact on local authorities will vary substantially according to their circumstances. The Committee would encourage the Cabinet Secretary to continue to discuss this issue with COSLA to ensure there are no disproportionate or unintended consequences in particular areas.**

**89. The Committee recognises that the UK Government’s Spending Review included significant, and – in the Committee’s view – unwise cuts to capital budgets. While the Committee recognises that the Scottish Government has taken steps to mitigate the overall impact on local authorities, the Committee is nevertheless concerned by the declines in capital funding and the impact that**

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<sup>71</sup> Scottish Borders Council. Written submission to the Local Government and Regeneration Committee.

<sup>72</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 296.

<sup>73</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 308.

<sup>74</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 308.

<sup>75</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 308-9.

**this will have on local authority capital programmes as they are often critical to local economic conditions especially in remote and or rural areas.**

**90.The Committee calls on the Scottish Government to encourage local authorities to consider and develop more innovative alternative means of borrowing, such as bonds. It also calls on the Cabinet Secretary and COSLA to continue putting pressure on the UK Government to reduce the interest rates on Public Works Loan Board loans.**

### **Welfare Reform**

91.The implications for local authorities of the UK Government’s proposals to reform the welfare system, as set out in the UK Government’s Welfare Reform Bill, arose in both written and oral evidence. At the time of the Committee’s scrutiny of the *Scottish Spending Review 2011 and Draft Budget 2012-13*, the Welfare Reform Bill was nearing the end of its parliamentary consideration at Westminster. A number of Scottish local authorities, as well as COSLA, had tried to quantify the impact of the provisions within the legislation on local authorities. However, the lack of detail in the Bill (this will be brought forward in subordinate legislation), combined with the very limited information provided by UK Government departments, rendered any detailed or accurate assessment difficult. Therefore, local authorities were limited to considering potential impacts and estimating ranges of costs and staff impacts associated with the new burdens that would be placed upon them. There was also a broader concern about the social impacts of the legislation in Scotland and the extent to which these would increase the demand for local authority services.

92.COSLA noted that while it recognised the need to reform the welfare system, it was very concerned about the “lack of detail in the UK Welfare Reform Bill and the speed in which the reforms are to be implemented.”<sup>76</sup> In written evidence to the Committee, COSLA set out the key implications of the proposed reform for local authorities—

“The move to Universal Credit will have a number of implications for local government in terms of both: its operation as a business, direct payments being a major concern for local authorities; and the impact it will have on local government communities and the potential increase in the demand for services this will create.

In addition to the creation of a Universal Credit, the Welfare Reform Bill will abolish Council Tax Benefit. Discussions are still taking place as to what will be created in its place in Scotland but what is clear is that the money coming to Scotland will be reduced by 10% resulting in a reduction of funding approximating £40m per annum. In addition the subsidy that local government receives for administering both housing and council tax benefit will be revised and it is unclear what, if any, subsidy local government will receive going forward.”<sup>77</sup>

93.Individual local authorities echoed the concerns raised by COSLA. East Ayrshire Council indicated that it was particularly concerned “about the significant impact that

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<sup>76</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>77</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

UK Government welfare reforms are forecast to have on vulnerable groups and individuals in East Ayrshire<sup>78</sup>, explaining that—

“An assessment by the Scottish Local Government Forum Against Poverty and Rights Advice Scotland (September 2010), found that there could be a total annual loss for those in East Ayrshire who are dependent on benefits of between £13.8 million and £16.4 million. This will lead to increased demands for Council services in areas such as social work, housing and welfare advice at a time when local government grant funding is also being reduced. The consequential impact on the local economy, already contributing to our high unemployment figures, means that the Council will need to put even more effort into economic regeneration activity, just to stand still.”<sup>79</sup>

94. North Lanarkshire Council was similarly concerned by anticipated increases in the demand for its services as a “high number of housing and social work service users are dependent on benefit for income.” It highlighted the following potential effects of welfare reform:

- “Migration of Incapacity Benefit to Employment and Support Allowance: potential loss to the local economy of £18m;
- Reform of Disability Living Allowance: potential loss £21m;
- Housing Benefit: potential loss £3m;
- Other unquantified impacts include Abolition of Social Fund (Community Care Grants and Crisis Loans), Universal Credit and moving the uprating of benefits from RPI to CPI.”<sup>80</sup>

95. The written evidence also raised concerns about the lack of clarity surrounding the final delivery model for the universal credit and the impact that it would have on local housing benefit staff to pursue rent arrears (with a possible increase in evictions) as rent would be paid by claimants rather than paid directly.

96. Citizens Advice Scotland, in written evidence to the Committee, observed that “there is no mention of the additional pressures or costs that local authorities [or for that matter voluntary and advice services] will be under due to welfare reform changes.”<sup>81</sup> South Lanarkshire Council expressed a hope that the Scottish Government would give consideration to the impact of the Welfare Reform proposals on local authority budgets—

“The Council hopes that over the Spending Review period the Scottish Government give careful consideration of the financial impact of any new policy developments and would press for a commitment by the Scottish Government that if the costs on councils that are predicted are exceeded that it will consider compensating councils. It also hopes that the Scottish Government will take a look at the cumulative burden that its policy decisions are placing on councils in these

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<sup>78</sup> East Ayrshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>79</sup> East Ayrshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>80</sup> North Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>81</sup> Citizens Advice Scotland. Written submission to the Local Government and Regeneration Committee.

fiscally constrained times and not allow a ‘silo’ mentality to reduce its appreciation of the full impact of its proposals.”<sup>82</sup>

97. In relation to the UK Government’s welfare reform proposals, the Cabinet Secretary registered his concern that—

“...the United Kingdom Government’s welfare reform programme will increase the financial pressure on the devolved Administration and local authorities. For example, council tax benefit is to be abolished on 1 April 2013. I think that a sum of money will be transferred to Scotland to replace that, and I think that it will come to 90 per cent of what is currently paid in council tax benefit. However, that is the limit of my knowledge of where we are, even though the benefit will be abolished on 1 April 2013 and today it is 2 November 2011.”<sup>83</sup>

98. The Cabinet Secretary confirmed that “we will have to continue to consider the further implications of welfare reform as the spending review takes its course.”<sup>84</sup>

**99. The Committee is extremely concerned about the potential impact of the UK Government’s welfare reform proposals on local authorities in Scotland. It is alarmed by the wide-ranging nature of the proposals and the lack of detail about the proposals and their potential impacts. The Committee is reporting separately on the Legislative Consent Memorandum on the Welfare Reform Bill and this report will contain more detail on the impacts of the proposals on Scottish local authorities. The evidence to the Committee shows that the impacts of the proposals include:**

- **potential additional costs for councils in managing rents, increased number of evictions, additional costs of arrears collection for both rents and council tax, and dealing with increasing social problems;**
- **further potential additional costs that can only be determined when the details are known;**
- **Significant reductions in spend in fragile local economies.**

**100. The Committee is concerned that the provisions of the Welfare Reform Bill will impose additional burdens on Scottish local authorities, effectively devolving costs previously incurred by UK Government departments and therefore reiterates its call for clarity from the UK Government on the detailed proposals for welfare reform.**

**101. The Committee calls on the Scottish Government to monitor the impacts on local authorities as they become known and consider whether additional funding will be required.**

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<sup>82</sup> South Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>83</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 312.

<sup>84</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 313.

## RESPONDING TO THE FUNDING GAP

### The scale of the funding gap

102. The demand for local authority for services, combined with the decline in funding over the Spending Review period will create a significant funding gap for local authorities. In preparation for the 2010 Spending Review, COSLA developed a model to identify the pressures and challenges for local government and to inform discussions about the policy decisions required to meet these pressures and challenges. The COSLA written submission provided information on the funding gap based on an updated financial model, using 2011-12 as a base year—

“The updated funding gap by 2016-17 is now estimated to be £3.7bn. Similar to the previous model, whilst much of this pressure is being driven by the reduction in the financial settlement, a large proportion of this is continued to be driven by the increasing demand which is being placed on local government services.”<sup>85</sup>

103. The implications of not addressing the funding gap were raised by the Scottish Community Development Centre. It cautioned that “without radical public service reform, the potential implications for a funding gap in local government are reduced social mobility, increased inequalities, increased number of people living in poverty, social disturbance and overall demise in the quality of life and increased demand on public services.”<sup>86</sup>

104. Some individual local authorities also provided figures on their own individual funding gaps, but the overwhelming body of evidence from local authorities testified to the degree to which local authorities had already put into place financial planning measures to adapt to declining budgets and the policy work being pursued to reduce demands. Reference was made to the value of the modelling work carried out by COSLA in preparation for the 2010 Spending Review which had provided financial assumptions that local government could use to prepare for the decline in budgets.

105. A key area in which local authorities have reduced costs is in their workforce budgets, as these constitute over 60% of all local government budgets. COSLA summed up the action taken by local authorities in relation to their workforces—

“In the last two years, the focus of that activity has been to secure affordable and sustainable employment through responsible management of the paybill and associated terms and conditions, including a two year pay freeze covering 2011/12 and 2012/13. Most councils have also reduced staff levels through recruitment freezes and / or voluntary early release schemes.”<sup>87</sup>

106. Douglas Black of Unison commented that “there have been widespread redundancies; many of them were voluntary but more and more are now compulsory.”<sup>88</sup> Evidence from individual local authorities pointed to significant reductions in overall

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<sup>85</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>86</sup> Scottish Community Development Centre. Written submission to the Local Government and Regeneration Committee.

<sup>87</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>88</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 199.

staffing numbers as the result of the uptake of voluntary severance schemes. While the overall figure for the reduction in the local government workforce cannot as yet be calculated, it is clear that local authorities are facing increasing demands for their services but have fewer staff to support delivery of these services.

107. SallyAnn Kelly of Barnardo's Scotland summed up the acceptance among witnesses that the economic situation and the budgetary reductions following from it could not be altered and that there was a need to focus on how to use existing spending to ensure the best outcomes situation when she told the Committee—

“We acknowledge the extent of the financial crisis and how it will impact on Government spending over the next decade and beyond. That brings us to a compelling argument about how we make decisions about how money is spent.”<sup>89</sup>

108. The following section of the report focuses on the contribution that preventative spending and other related approaches such as outcomes-based approaches, service redesign, shared services, cross-agency working and total place initiatives can support local authorities in adapting to the challenges posed by the funding gap. As the Finance Committee agreed that scrutiny of preventative spending should be integral to the annual budget process and that subject committees should be invited to scrutinise the Scottish Government's progress in moving towards a more preventative approach to public spending, this was a key area of inquiry for the Committee.

### **Preventative Spending**

109. The Cabinet Secretary for Finance, Employment and Sustainable Growth describes the Spending Review as marking “a decisive shift towards preventative spending”. The *Scottish Spending Review 2011 and Draft Budget 2012-13* includes the establishment of three funds to support preventative spending. The three funds are: a continuation of the ‘Change Fund’, an ‘Early Years and Early Intervention Change Fund’ and, lastly, a ‘Reducing Reoffending Change Fund’. Combined, these funds will total over £500m in support for preventative spending over the three-year Spending Review period.

110. The allocation of funding to preventative spending was universally welcomed by those that provided evidence to the Committee. COSLA stated that “a shift towards preventative spend is very important, and we welcome the extension of the change fund, which we regard as a step in the direction that we need to take together.”<sup>90</sup> However, questions were raised about the lack of a definition of preventative spending and the degree to which the funding could have an impact over the three-year period for which funding is allocated and concerns were raised about the mechanisms for funding and the allocation of funds to preventative spending initiatives rather than existing projects.

111. Bob Christie of the National Community Planning Group observed that “£500 million sounds like a lot of money; however, it is rather less than 0.5 per cent of the

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<sup>89</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 243.

<sup>90</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 291.

more than a hundred thousand million that is being allocated over the period of the spending review.”<sup>91</sup>

112. The SCVO cautioned that the Change Funds “should not be relied on to steer the transition to preventative spending alone.”<sup>92</sup> SCVO explained this point by commenting that “the £80m allocated to next year’s Reshaping Care Change Fund contrasts sharply with a total spend on health and social care for older people each year of over £4bn.”<sup>93</sup>

#### *Definition of preventative spend*

113. While considerable interest has been shown in recent years on the potential of preventative spend to improve outcomes for individuals while also reducing the demand for, and thereby the cost of, public services, there is no universally agreed definition of the term. South Lanarkshire expressed a concern about this in written evidence to the Committee—

“The Council believes that an issue for concern is the use of the term ‘preventative spend’ and the fact that no agreed definition of this has been developed. The danger is that it becomes a label that is put on everything and so its usefulness becomes devalued.”<sup>94</sup>

114. Cognisant of the potential for pre-existing policies, strategies or spending to be re-classified as preventative spend, the Committee pursued the issue of the need for a definition with witnesses. This questioning elicited a variety of definitions which had some common threads and a recognition that there needed to be discussion on the topic. David Dorward of SOLACE provided the Committee with a very succinct explanation—

“I would like to think that preventative spend is spending that reduces future demand while improving the quality of service to the people in need who receive the service. It may also include a criterion that there should, in the long term, be a reduction in the overall spend if we are able to reduce demand. The reduction in demand should flow through to reduced spend, not the other way round because that is wrong, to be frank. If we can reduce demand—to be frank, that means improving the quality of life for the service users—we should be able to reduce spend over the longer term.”<sup>95</sup>

115. It emerged that some councils had established working definitions which reflected local needs and approaches. For example, Lorraine Gillies of West Lothian Council said—

“I think that we have a local definition. We are clear that preventative spend is a different approach that, rather than being about dealing with a problem when it has occurred, is about using our intelligence differently and using our years of

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<sup>91</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 243.

<sup>92</sup> SCVO. Written submission to the Local Government and Regeneration Committee.

<sup>93</sup> SCVO. Written submission to the Local Government and Regeneration Committee.

<sup>94</sup> South Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>95</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 276.

experience to make predictions and shift our services so that we can get in a bit earlier.”<sup>96</sup>

116. SallyAnn Kelly of Barnardo’s Scotland encapsulated the challenge of defining preventative spend in relation to a sound evidence base—

“There is a real and fundamental challenge for the Government in looking at what works for people across the spectrum of need, how what works is evidenced, and how it is ensured that decisions at the local government and national Government levels are evidence based and based on what is in the interests of the population that will receive the services.”<sup>97</sup>

117. The SCVO proposed a practical solution to the collection of information on preventative spend through the establishment of a central repository on successful projects to support the sharing of information and development of successful approaches—

“There is a growing evidence base of robustly evaluated projects which helps establish the efficacy of various models and approaches, as well as what outcomes can be expected for the investment and how much money can be saved by the statutory sectors through reduced demand. However, there is no central repository for this information and local authorities, health boards and third sector organisations do not always have access to the latest information given that many of the most effective projects are small, locally run operations which do not receive much publicity.”<sup>98</sup>

#### *Criteria for the award of the Change Fund*

118. The importance of criteria for the award of funding for the Change Funds also emerged as an issue in evidence. There was a particular concern that there would be “instances where money is being focused on institutional care and filling gaps in local authority budgets rather than on real preventative spend measures.”<sup>99</sup>

119. Bob Christie of the National Community Planning Group (NCPG) stated that it was of “huge concern” that the NCPG did “not yet know what the mechanisms of those three change funds will be.”<sup>100</sup> He further explained that—

“Our concern is that those funds should be used in ways that support the community planning process and delivery of single outcome agreements. They should not become the focus of concern; they should be, as the Scottish

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Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 235.

<sup>97</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 243-4.

<sup>98</sup> SCVO. Written submission to the Local Government and Regeneration Committee.

<sup>99</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, 245-6.

<sup>100</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 182.

Government intends them to be, the levers of mainstream resources that enable partners to achieve the shift to prevention.”<sup>101</sup>

120. COSLA called for “a set of basic principles that govern the funds” and emphasised the importance of ensuring that the funds were used to support the redirection of resources—

“COSLA believe that in order for the change funds to meet their objectives all partners in government need to ensure that the focus is on redirecting total resource and not just about spending pots money on initiatives that will stop when the change funds end. The change funds must engender a refocus on how we spend resources from acute to preventative spend. It is only then will we see a reversal to the increasing trend in the demand for intervention type services.”<sup>102</sup>

121. The concern about the use of the change funds to meet the objective of supporting existing projects was linked to the mid-term evaluation of the current Change Fund programme. Age Scotland stated that “Evidence from the first six months of this year’s programme show that only 18% of the current spend went towards preventative and anticipatory care. 19% went toward hospital and institutional care, 24% went towards support and care at home (some of which could be preventative) and 33% for care at time of transition (e.g. re-ablement, NHS 24, alternative to emergency admissions) and 6% on enablers like workforce development and IT.”<sup>103</sup>

122. Age Scotland suggested that “there might be a need for the cabinet secretary to sign off spending plans for preventative measures so that we can assess whether the money is going directly to those measures or whether the partners who are involved are just filling up budget black holes, which will be an increasing temptation for people in the next few years.”<sup>104</sup>

123. Douglas Sinclair of Consumer Focus Scotland proposed an alternative approach to projects being signed-off by the Cabinet Secretary, instead suggesting that—

“...the money to be allocated to the community planning partnerships. One pillar of the Government’s approach to public service reform is better delivery of services at the local level. There is no reason why the money could not be allocated to the community planning partnerships, at which the voluntary sector will be round the table. That would give it a stronger voice. The danger of allocating the money to the council or the health board is that, human nature being what it is, they will say that it is their money rather than money that is owned by the community planning partnership. It would be a good test of community planning partnerships to hold them to account for the delivery of cross-cutting money.”<sup>105</sup>

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<sup>101</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 183.

<sup>102</sup> COSLA. Written submission to the Local Government and Regeneration Committee.

<sup>103</sup> Age Scotland. Written submission to the Local Government and Regeneration Committee.

<sup>104</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 249-50.

<sup>105</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 249.

124. The Cabinet Secretary explained his position to the Committee in relation to the direction of the adult social care change fund, stating that, “When I set out some of the details on preventative spending to Parliament, I indicated that, for example, bids for the adult social care change fund would be acceptable only if they involved joint working.”<sup>106</sup> He also said that—

“If I were to put any rules in place, I would probably put in place the rule that ... that there has to be some degree of joint working. Part of my view and the Government’s view about how we address some of the long-term demographic challenges that we face involves ensuring that we have a seamless integration of the way in which we deploy public expenditure at a local level. That must be the correct way to proceed. That is equally valid with regard to the preventative spending agenda.”<sup>107</sup>

**125. The Committee recognises the variety of ways in which preventative spend initiatives can help to alleviate the anticipated funding gap facing local government, while at the same time supporting improved social outcomes. It therefore welcomes the allocation of monies to the Change Funds over the spending review and believes that the Change Funds will help to support the moves towards preventative approaches that encourage partnership and outcomes-based approaches.**

**126. The Committee recognises that there is no single, common definition for preventative spend. It believes that local authorities should have the autonomy to determine the approaches that are suitable to the challenges faced in their areas and is therefore reluctant to propose either the development of a definition and/or guidance in this area. However, the Committee does recognise the value of sharing best practice in this area and acknowledges the suggestion that there should be a repository of information on preventative spend initiatives.**

**127. The Committee is of the view that the Change Funds represent an opportunity to promote partnership working and that there should therefore be a presumption in favour of such projects in the allocation of the Funds.**

**128. The Committee acknowledges the calls for the development of criteria or guidance for the allocation of Change Fund resources. On balance, it believes that there needs to be sufficient flexibility to meet local needs and circumstances and is therefore reluctant to propose the adoption of criteria. Of the evidence it heard, the Committee would suggest that two key features of any preventative spend should be that it reduces future demand and involves joint working.**

*Existing local authority preventative spend work*

129. In addition to the evidence on the Change Fund, the Committee received considerable evidence testifying to the degree to which local authorities and the third sector were initiating and pursuing preventative approaches as part of their own strategies. These were not restricted to projects related to early years intervention and social care, with evidence of projects for different groups within the community including

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<sup>106</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 311.

<sup>107</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 311.

young people and former servicemen; for projects aimed at tackling anti-social behaviour, domestic abuse; and for projects aimed at promoting community safety. Some of these projects resulted not only in improved outcomes for the individuals concerned, but significant, quantifiable savings to providers.

130. The evidence also showed that the success of preventative spend initiatives is closely linked to other approaches being taken, including partnership working, the adoption of outcomes-based approaches and, potentially, total place approaches.

**131. The Committee welcomed the broad range of evidence it received from individual local authorities and third sector bodies testifying to the preventative spending work already being undertaken. It believes that this reflects the commitment of local authorities and the third sector to improve social outcomes for people and communities in Scotland.**

#### *Partnership working*

132. Marjory Stewart of CIPFA Directors of Finance Section emphasised the importance of partnership working in relation to preventative spend—

Any criteria for preventative spend must revolve around partnership working. ... A lot of what we do in our day-to-day work—for example, educating children, looking after children, looking after older people and looking after disabled adults—is about preventative spend. The issue is how we can work more smartly with other organisations and our partners to deliver a seamless service and get beyond the structural boundaries and structural budgets so that the person who receives the service does not know whether the provider works for the national health service, the police or the local authority.”<sup>108</sup>

133. While there was evidence of the structural difficulties that could inhibit partnership working, there were also examples of partnership working to achieve shared outcomes as well as to share services. One of the key barriers to partnership working is the different accountability frameworks for public bodies. Other constraints on partnership working identified were the different budgetary cycles that local authorities and the NHS boards work to and the focus on HEAT targets within NHS Scotland. South Lanarkshire Council set out the problems that community planning partnerships faced in relation to their single outcome agreements in making coherent partnership planning and management possible—

“...the main issue that the Partnership faces lies with the fact that many of the public sector partners do not have multi-year settlements and work to different budgetary cycles. With some partners, the budgetary decision process is carried out at a higher level and all that exists locally is an operational budget. A further key issue is that for certain partners, the focus is on achieving targets and outcomes set out with the community plan by the Scottish Government, for example, the HEAT targets.”<sup>109</sup>

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<sup>108</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 276.

<sup>109</sup> South Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

134. North Lanarkshire Council drew the Committee's attention to the "significant differences between the VAT arrangements of local authorities and health authorities, which can make partnership working both difficult and costly to ensure that the agreements between both parties are within the law and are tax efficient"<sup>110</sup> and called for consideration to be given to removing such barriers in order to facilitate joint working.

135. Bob Christie of the National Community Planning Partnership proposed the development of a common set of duties to support the achievement of common outcomes and overcome the resistance of services working together—

"As you may know, in its submission to the Christie commission, the national community planning group, being comprised of the chief accountable officers for a big part of public service delivery in Scotland, made it clear that until everyone is working together with a common set of duties for the achievement of measurable outcomes, for the same communities in the same local areas, the existing tensions in the system will pull them apart. They may want to work together or they may not want to work together and use the existing system as an excuse; however, until we are all bound by a common set of duties under which we are accountable for improved outcomes—rather than being concerned with to whom we are accountable—the problem is not going to go away, I am afraid."<sup>111</sup>

136. Positive examples of public sector bodies working together in partnership also emerged from evidence. For example, Scottish Borders Council had developed a range of partnership initiatives with NHS Borders and Lothian and Borders Police to support joint working on child protection and safer communities. East Renfrewshire Council indicated that it had entered into partnership with NHS Greater Glasgow and Clyde to create a Community Health and Care Partnership under a single director and management team in 2005. It stated that—

"This has resulted in improved efficiency, shared costs and reduced duplication. More fundamentally it has provided more creative and joined up services for the people of East Renfrewshire. Services are designed around patient and customer pathways rather than working around the fault-lines of separate organisations."<sup>112</sup>

**137. The Committee recognises that there are a number of individual examples of public bodies that have been successful in developing partnership models despite the existing obstacles. Nevertheless, it is clear from the evidence that there are both cultural and structural obstacles to partnership working. Notable examples of these obstacles are the inconsistency of budgetary cycles and accounting procedures between local authorities and NHS boards and the focus of NHS boards on meeting HEAT targets not linked to Community Planning Partnership plans. The Committee calls on the Scottish Government to consider how these can be overcome to facilitate partnership working and the achievement of joint outcomes. The Committee would encourage much wider engagement with**

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<sup>110</sup> South Lanarkshire Council. Written submission to the Local Government and Regeneration Committee.

<sup>111</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 183.

<sup>112</sup> East Renfrewshire Council. Written submission to the Local Government and Regeneration Committee.

**key stakeholders, including the private sector, in developing preventative spending proposals.**

*Outcomes-based approaches*

138. When giving evidence to the Committee, Jenny Stewart of KPMG emphasised that “as a country we are producer driven, so we think much more about the teachers, doctors or nurse” and urged a more towards a system focused “on what the citizen needs, what the citizen wants and how we provide services to meet those.”<sup>113</sup>

139. Many of the local authorities that submitted evidence to the Committee provided evidence of the development of outcomes-based approaches. For example, West Lothian Council described how it had developed a strategy around prevention and early intervention using an outcomes approach. Lorraine Gillies explained that the Council wanted “to get to the point at which everyone who is working with an individual or a family in the community understands the impact of what they are.”<sup>114</sup>

140. Similarly, Midlothian Council described how it had moved from a resource-based budget distribution system to one based on outcomes which drew on an analysis of the “demographic, social and economic profile of the Council area.”<sup>115</sup> Performance against outcomes was measured and evaluated on a quarterly basis. East Ayrshire Council described how it was shifting towards outcome based budgeting in order to maximise its budget—

“The Community Planning approach to strategic planning has already focussed minds on planning by outcomes/priorities. This now requires a big shift in how we budget for services – we have set up an internal working group to plan the shift to OBB [outcomes based budgeting]. The revenue reductions faced by the Council are such that a focus on the absolute key outcomes will be required.”<sup>116</sup>

**141. The Committee accepts there is a need for local authorities to move systematically towards outcomes-based approaches as recommended by the Christie Commission. It intends to conduct further work in this area.**

*Total place initiatives*

142. Total place initiatives, which bring together different public sector bodies to work on achieving agreed outcomes within a defined geographic area, were also identified as supporting preventative approaches. Glasgow City Council provided evidence on the “one Glasgow” approach adopted by core community planning partners (namely the Council, Glasgow Housing Association, NHS Greater Glasgow and Clyde, Strathclyde Police and Strathclyde Fire and Rescue, the Department for Work and Pensions and Jobcentreplus) which provides a framework for redesigning services around the delivery of improved outcomes, the reduction of duplication and the redirection of resources.

143. Scottish Borders Council also provided evidence on the establishment of place-based approaches in areas in the Borders. In Cheviot, it had sought to integrated

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<sup>113</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 184.

<sup>114</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 230.

<sup>115</sup> Midlothian Council. Written submission to the Local Government and Regeneration Committee.

<sup>116</sup> East Ayrshire Council. Written submission to the Local Government and Regeneration Committee.

partnership approach in a defined area. It adopted this model so that it could “look at a community, analyse where the spend was and, in consultation with the community, redesign services according to what it wanted”<sup>117</sup> in order to identify priorities.

**144. The Committee believes that there is a need to evaluate total place initiatives and consider the contribution they could make to promoting partnership working and improving outcomes in communities. It would like to see further opportunities for the benefits of total place initiatives to be shared.**

*Living wage*

145. The Committee decided to consider a living wage for local authority employees and for those contracted by local authorities to identify the benefits that it could bring.

146. Peter Kelly, of the Scottish Living Wage Campaign, set out the benefits that the introduction of the living wage by a range of public and private sector employers had brought—

“The experience in London, is that the employers talk about reductions in staff turnover and improvements in staff morale. So there is a business case, given the impact of the living wage. It also brings benefits to individual employees. Almost half the children who live in poverty live in households in which someone is in paid employment. In-work poverty is a crucial issue in Scotland and the UK, and the living wage is a practical way of dealing with that.”<sup>118</sup>

147. Lynn Norwood, the Head of People development at Cordia (Services) LLP explained her the benefits that the living wage had brought for her company and its employees—

“[It] has a huge impact, particularly for the 3,500 staff who are at grade 1 in our structure, and it means that we have very low staff turnover, which is great news for the business. That reduces our recruitment costs, which saves us money that is vitally needed elsewhere. It has helped with training, because we are not training people only for them to walk out the door—perhaps to a competitor—and it allows us to be efficient with our training costs. Having a more stable workforce helps us to focus on delivering quality services to the local community. Our workforce is local, and what local people earn from an organisation such as Cordia is ploughed back into the community, so it helps us in that regard—with free meals or food in schools, for example. The money that we give our staff circulates, and our staff are citizens of the area covered by Glasgow City Council, for which we provide many services.”<sup>119</sup>

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<sup>117</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 26 October 2011, Col 233.

<sup>118</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 203.

<sup>119</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 5 October 2011, Col 205.

148. When the Committee brought up the issue of a living wage with the Cabinet Secretary, he commented, “I think that I am persuaded on the living wage argument—I have done my level best on it so far.”<sup>120</sup>

**149. On the basis of the evidence heard on the living wage, the Committee has decided to look at the subject in greater depth. It considers that there are positive impacts that the living wage can have on both individuals and communities and believes that there is a case to be made for the living wage to be categorised as a form of preventative spend.**

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<sup>120</sup> Scottish Parliament Local Government and Regeneration Committee. *Official Report*, 2 November 2011, Col 311.

**EXTRACTS FROM THE MINUTES OF THE LOCAL GOVERNMENT AND REGENERATION COMMITTEE**

**5th Meeting, 2011 (Session 4), Wednesday 21 September 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered and agreed its approach to the scrutiny of the Scottish Government's Draft Budget 2012-13 and the Spending Review 2011. The Committee agreed a calendar for taking evidence from a series of witnesses and delegated the decision regarding any changes to this calendar to the Convener. It also agreed to hold a discussion in private at the end of each meeting on the evidence heard and to consider all draft reports in private.

**7th Meeting, 2011 (Session 4), Wednesday 5 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Bob Christie, Outcomes Programme Manager, Improvement Service;  
Fiona Kordiak, Director of Audit Services, Audit Scotland;  
Jenny Stewart, Head of Infrastructure and Government - Scotland, KPMG;  
Gary Gillespie, Chief Economist, and Graeme Roy, Senior Economic Adviser, Office of the Chief Economic Adviser, Scottish Government;  
Peter Kelly, Scottish Living Wage Campaign;  
Douglas Black, Regional Organiser, UNISON;  
Lynn Norwood, Head of People Development, Cordia (Services) LLP.

**8th Meeting, 2011 (Session 4), Wednesday 26 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Lorraine Gillies, Life Stages Programme Manager, Office of the Chief Executive, West Lothian Council;  
Andrew Lowe, Acting Chief Executive, Scottish Borders Council;  
SallyAnn Kelly, Acting Director, Barnardo's Scotland;  
Callum Chomczuk, Senior Policy and Parliamentary Officer, Age Scotland;  
Douglas Sinclair, Chair, Consumer Focus Scotland;  
Matt Lancashire, Social Policy Officer, Citizens Advice Scotland;  
Ian Paterson, Chief Executive, Aberdeen Council of Voluntary Organisations.

**9th Meeting, 2011 (Session 4), Wednesday 2 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

David Dorward, Honorary Treasurer, SOLACE;  
Lynn Brown, CIPFA Director of Finance Section;  
Marjory Stewart, CIPFA Director of Finance Section;

Councillor Kevin Keenan, Spokesperson for Resources and Capacity, COSLA, and  
Brenda Campbell, Finance Director, COSLA.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, Ian Davidson, Head of Local Government, and William Stitt, Assistant Team Leader, Local Government Division, Scottish Government.

**10th Meeting, 2011 (Session 4), Wednesday 9 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011. Various changes were agreed to, and the Committee agreed to consider a revised draft at its next meeting.

**11th Meeting, 2011 (Session 4), Wednesday 16 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered and agreed a revised draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.



The Scottish Parliament  
Pàrlamaid na h-Alba

## Rural Affairs, Climate Change and Environment Committee

### Report on The Scottish Government's Draft Budget 2012-13 and Spending Review 2011

The Committee reports to the Finance Committee as follows—

1. In this report, the Rural Affairs, Climate Change and Environment Committee (RACCE) comments on those aspects of the Scottish Government's Spending Review 2011 and Draft Budget 2012-13 that relate to its remit.
2. The Committee has been assisted in its scrutiny by its budget adviser, Professor Dominic Moran, of the Scottish Agricultural College, and extends its thanks to him for his assistance.

#### BROAD SUMMARY

3. **The Committee acknowledges that, given the current economic circumstances, the Cabinet Secretary for Rural Affairs and the Environment has had difficult decisions to make about where to protect spending, and where to cut spending, in his portfolio.**
4. **The Committee found scrutinising the Rural Affairs and Environment budget much clearer than attempting to scrutinise the spending on achieving the Scottish Government's climate change targets. It would very much welcome better engagement with committees in the provision of more detailed spending plans to achieve these targets.**
5. **Given that spending on climate change effects virtually every aspect of Government spending, the Committee recommends several improvements that could assist committees in future, in scrutinising climate change spend—**
  - **all committees need to consider climate change issues when scrutinising their own relevant Scottish Government portfolios, and need to discuss how to work together more effectively to hold the Scottish Government to account across all relevant areas of climate change spend;**
  - **the Scottish Government needs to improve the presentation of both its proposals and policies documents (the RPP), and its budget documents, to make clearer who is responsible for delivering which proposals and policies, and to enable a clearer read-across between the documents.**

**Tracking Scottish Government spending on climate change policies needs to be made clearer and more transparent.**

6. **The Committee urges the Scottish Government to ensure that all proposals and policies in the RPP, and any future revisions of the RPP, are fully funded, in order to meet the targets set out in the Climate Change (Scotland) Act 2009.**

7. **The Committee is concerned that the cut in the Scottish Government's spending on the Scotland Rural Development Programme, and its funding of its key agencies, such as Scottish Natural Heritage and the Scottish Environment Protection Agency, do not have an adverse effect on the Scottish Government's ability to deliver on its climate change targets, land use strategy, or bio-diversity targets, and recommends that the Scottish Government update the Committee on various aspects of this (see details below) on an annual basis.**

8. **Finally, the Committee welcomes the areas in which the Scottish Government has been able to deliver new or increased funding. In particular, the establishment of a fund to aid the improvement of broadband in rural areas, a substantial increase in the food and drink budget, and the establishment of a land fund, are very welcome, and the Committee looks forward to engaging with the Scottish Government further in the development and roll-out of these funds.**

## INTRODUCTION

### Approach

9. On 21 September 2011, the Scottish Government published its Scottish Spending Review 2011 and Draft Budget 2012-13.<sup>1</sup>

10. At its meeting on 7 September 2011, the RACCE Committee agreed that its budget scrutiny this year should focus on how the proposals and policies in the Scottish Government's document *Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022 – The Report on Proposals and Policies*<sup>2</sup> (known as the RPP) are being funded, and to pursue any other issues of concern highlighted by the adviser, the Committee and members.

11. The Committee agreed to appoint an adviser to assist it with its scrutiny, and at its meeting on 21 September 2011 agreed that Professor Dominic Moran be offered the position. Professor Moran subsequently accepted the role.

12. The Committee's scrutiny was broadly split into two parts. The more straight-forward element, in terms of tracking expenditure, was the scrutiny of the Rural Affairs and Environment (RAE) portfolio, which is detailed in Chapter 11 of the budget and spending review document. The less straight-forward aspect was scrutiny of the spending on climate change mitigation and adaptation policies, and attempting to track

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<sup>1</sup> Scottish Government (2011). *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Publications/2011/09/22135416/0>

<sup>2</sup> Scottish Government (2011). *Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022 – The Report on Proposals and Policies*. Available at: <http://scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/rpp>

funding provided for proposals and policies outlined in the RPP, the majority which sits outwith the RAE budget.

13. The Committee's ability to scrutinise the budget effectively was hampered by the Scottish Government's chosen release date of more detailed spending plans, known as 'level 4' figures. These figures assist the tracking of certain budget lines by breaking down particular areas of spend into more detailed funds and schemes. The Committee received the level 4 figures for the RAE budget the afternoon before its evidence session with the Cabinet Secretary for Rural Affairs and the Environment, which did not allow for a reasonable period in which to analyse the figures or refer to them in questioning. The Committee also did not receive level 4 figures relevant to climate change spend in other portfolios until shortly before its evidence session with the Minister for Environment and Climate Change. **The Committee recommends that, for future budget documents, the Scottish Government releases level 4 figures across all portfolios in sufficient time for committees to consider the figures ahead of any evidence sessions.**

## **Evidence**

14. The Committee issued a call for written evidence<sup>3</sup> to allow stakeholders the opportunity to submit comments on the draft budget within the Committee's remit. Thirteen responses were received in total and the Committee thanks all of those who sent in submissions.

15. The Committee also received supplementary written evidence from the Scottish Government,<sup>4</sup> following both of the evidence sessions held by the Committee (detailed below), and, clarifying comments made in its original submission, by Stop Climate Chaos Scotland (SCCS).<sup>5</sup>

16. The Committee agreed to take oral evidence from both the relevant Minister and Cabinet Secretary before reporting to the Finance Committee in mid-November. Evidence sessions on the budget were held as follows—

- Wednesday 5 October 2011 – Richard Lochhead MSP, Cabinet Secretary for Rural Affairs and the Environment (to cover any relevant rural affairs and environment matters as they pertain to the budget); and
- Wednesday 26 October 2011 – Stewart Stevenson MSP, Minister for Environment and Climate Change (to predominantly cover climate change and

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<sup>3</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Call for evidence on the Scottish Government's draft budget. Available at:

<http://www.scottish.parliament.uk/s4/committees/rae/inquiries/DraftBudgetscrutinycallforviews.htm>

<sup>4</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Supplementary written evidence from the Scottish Government. Available at:

[http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary\\_written\\_evidence\\_26\\_October.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary_written_evidence_26_October.pdf) and:

[http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary\\_written\\_evidence\\_5\\_October\\_pdf.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary_written_evidence_5_October_pdf.pdf)

<sup>5</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Supplementary written evidence from Stop Climate Chaos Scotland. Available at:

[http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Letter\\_from\\_Stop\\_Climate\\_Chaos\\_-\\_10\\_November.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Letter_from_Stop_Climate_Chaos_-_10_November.pdf)

RPP issues, along with any other relevant issues which the Minister is responsible for).

17. The breakdown of portfolios meant that the session on 5 October with the Cabinet Secretary focussed on—

- Agriculture (including the Scotland Rural Development Programme (SRDP));
- Marine and fisheries;
- Waste;
- Broadband;
- Food and drink; and
- RPP issues as they related to any of the above.

18. The session on the 26 October, with the Minister, covered—

- Climate change;
- Forestry;
- Agencies (including Scottish Natural Heritage (SNH) and the Scottish Environmental Protection Agency (SEPA))
- Land reform/strategy (including the land fund); and
- RPP issues as they related to any of the above.

#### SCOTTISH GOVERNMENT PRIORITIES

19. Giving evidence to the Committee on 5 October 2011, the Cabinet Secretary for Rural Affairs and the Environment emphasised to the Committee the central purpose of the budget as being—

“[...] to focus on creating a more successful country with opportunities for everyone in urban and rural Scotland to flourish through sustainable economic growth.”<sup>6</sup>

20. The Cabinet Secretary also noted that he had had to take difficult decisions in relation to the budget for his portfolio against a backdrop of a cut to the Scottish Government's budget of “12.3% in real terms over the period of the UK Government's spending review up to 2014-15”.<sup>7</sup>

21. The RAE budget declines over the course of the budget and spending review period. In cash terms, the budget falls from £540.6m in 2011-12, to £513.5m in 2014-15, which is a reduction of 5%. In real terms, the budget falls from £540.6m in 2011-12 to £475m in 2014-15, which is a reduction of 12.1%.

22. The Committee asked the Cabinet Secretary what impact the Scottish Government's stated intention to transfer £200m a year from the budget's resource spending, to capital spending would have on the RAE budget. In reply, the Cabinet Secretary told the Committee—

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<sup>6</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 212.

<sup>7</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 212.

“[...] a lot of the detail of how we will take that forward is being discussed within the Government just now. It is probably a question more for the finance secretary than for me. It is, however, unlikely that that will have much impact on my portfolio; it will relate largely to the other Government portfolios. I hope that many of those projects will be built in rural Scotland, but they will not be directly under my responsibility.”<sup>8</sup>

23. The Cabinet Secretary went on to outline the intentions of the spending plans for the RAE budget—

“I have prioritised economic growth in my spending plans. For instance, I have doubled the food and drink industry budget, to provide further assistance to help our world-class food and drink sector become a true world beater. The Scottish Government has also established the next generation digital fund, as part of the Scottish Futures Trust, to help to provide and enhance digital access in rural Scotland. Further, I have continued investment in the rural economy through a new land fund to support community empowerment, and increased resources for the land managers renewables fund.

Those policies cover my four overarching aims: community empowerment; improved rural connectivity; strengthening primary production, which will help to build up our food and drink sector; and supporting renewables to tackle climate change and protect our environment.”<sup>9</sup>

24. The Minister for Environment and Climate Change outlined the objective of the budget with regard to tackling climate change when he gave evidence to the Committee on 26 October 2011—

“[...] the Government is committed to the transition to a low-carbon economy, as laid out in our refreshed Government economic strategy. That transition is vital to maximising Scotland’s sustainable growth, and therefore to securing jobs and investment; it is also vital to achieving our climate change targets.

The recently published greenhouse gas inventory for 2009 showed that Scotland’s emissions are now 27.6 per cent lower than they were in 1990. That is very nearly two thirds of the way to our target of 42 per cent by 2020. However, I know that securing the remaining reductions cannot be taken for granted. That is why the draft budget and the wider spending review will invest in measures to continue the transition towards a low-carbon Scotland [...] we have prioritised funds across sectors that will support reductions in emissions, help households to address volatile fuel bills, and build our renewable future.”<sup>10</sup>

25. There was some criticism of the overall cut to the RAE budget in written submissions to the Committee. The Scottish Wildlife Trust said in its submission—

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<sup>8</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 221.

<sup>9</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 212.

<sup>10</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 254.

“We note with some concern that the Rural Affairs and Environment head is allocated a cut of 1.79% in the draft budget for 2012-13 and a projected cut of 5.01% from the 2011-12 budget to the planned budget for 2014-15. This is the largest reduction of any spending department and contrasts very unfavourably with the projected increase of 12.31% in the Infrastructure & Capital Investment budget and the overall total budget increase of 2.14%.”<sup>11</sup>

**26. The Committee notes that the stated overall purpose of the Scottish Government’s draft budget and spending review is to support sustainable economic growth and that there are significant challenges within this in the current economic circumstances. The Committee believes that rural Scotland is already making a significant contribution to the economic, environmental and social sustainability of Scotland, but also believes that there remains a great deal of further potential in rural areas that is yet to be unlocked. It is important that the budget and spending review, within the context of spending cuts, does all it can to protect and build on the current success stories, whilst providing support to those areas most in need.**

**27. In terms of the balance between resource spending and capital spending in the RAE portfolio, the Committee recommends that the Scottish Government clarify the details of its planned transfer of £200m a year from resource spending to capital spending, and outline what impact this will have on specific portfolios.**

**28. The Committee notes that over the course of the spending review period the RAE budget falls by 5% in cash terms and 12.1% in real terms. Whilst this percentage reduction is not exceptional in the context of the budget as a whole and the reduction in the Scottish Government’s funding, the Committee will closely monitor the effects of these cuts as it continues to hold the Scottish Government to account.**

#### BUDGET FOR SUPPORTING CLIMATE CHANGE MITIGATION PROPOSALS AND POLICIES (THE RPP)

#### **Cross-cutting aspects**

29. Although the Committee is responsible for scrutinising the work of the Minister with responsibility for the climate change work of the Scottish Government, this is, of course, a cross-cutting issue which is relevant to virtually every strand of the Scottish Government’s spending responsibilities. This has made scrutinising the budgetary provision for climate change mitigation and adaptation policies, and tracking the spending on RPP proposals and policies, very challenging.

30. Many of the issues which attracted most comment in written evidence, such as transport and energy efficient housing, lie within the responsibility of other Scottish Government Ministers, and are therefore not directly within the remit of the RACCE Committee. The Committee has therefore not focussed on these areas in its own scrutiny, but hopes that many of these issues will be considered by the relevant subject committees.

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<sup>11</sup> Scottish Wildlife Trust. Written submission to the Rural Affairs, Climate Change and Environment Committee.

31. The Committee understands that the Infrastructure and Capital Investment (ICI) Committee intends to look in more detail at transport and housing issues, as they relate to the RPP, and therefore the RACCE Committee did not pursue these issues, in order to avoid duplication. The Committee was less certain about the focus of the Economy, Energy and Tourism Committee's budget scrutiny, but understood that it might cover fuel poverty issues. The RACCE Committee therefore pursued some areas of questioning on energy efficiency and carbon capture and storage, details of which are included in the report below.

**32. At times, the Committee found the process of scrutinising the Scottish Government's spending on climate change mitigation to be frustrating due to the cross-cutting nature of climate change mitigation policy. To fully scrutinise the spending, the Committee would have had to have conducted a cross-cutting inquiry over a range of portfolios, which is not practical in the time available.**

**33. Therefore, in advance of future budget scrutiny, the Committee intends to consider how best all the relevant committees, including the Finance Committee, can better scrutinise spending on climate change mitigation and adaptation policies across the Scottish Government's responsibilities. The Committee will initiate dialogue with other committees on this issue.**

#### **Clarity and transparency**

34. As well as facing the challenges of scrutinising such a cross-cutting area of spend, the Committee also encountered difficulties in being able to track spending on RPP and climate change issues.

35. The Committee pursued this matter, and asked the Minister whether the Scottish Government needs to re-examine how the RPP and future budget documents can be better aligned, to enable both documents to be more transparent and easier to understand. In response, the Minister told the Committee that—

“The question that you are essentially asking is how you can tease out what is going on in that complex area, where the RPP cuts across a number of ministerial portfolios, with further complexity added because of the dependence on expenditure made by others.

I do not think that I have a simple answer to that question. We just have to look at the purpose of the RPP, which is to be focused on the targets and what must happen for those to be delivered. It is not necessarily connected line by line to the Government's budgets because there will be money from others, including private companies, public companies and private individuals, and from other jurisdictions, such as local government and the UK Government. There will also be European action.”<sup>12</sup>

36. When asked whether the RPP and budget documents could contain a summary of exactly what contribution would be made those responsible for delivering the targets (such as the Scottish Government, UK Government, local government, the EU, private

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<sup>12</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 256.

and public sectors, and individuals), and also how there could be improved clarity on the year-on-year spending on climate change mitigation, the Minister noted that the RPP was an “estimation” which should not be seen as a precise document, but rather one that presented a range of options. The Minister noted that the budget should provide the clarity and precision, supported by, in terms of progression towards climate change targets, the annual report required by the Climate Change (Scotland) Act 2009.

37. The Committee notes, however, that the RPP states that, in order to meet the target for emissions reduction by 2022 set out in the Climate Change (Scotland) Act 2009, all the policies and proposals outlined in the document would need to be implemented, together with the establishment of a 30% target across the EU.

38. The Minister also outlined the purpose of the second RPP, which the Scottish Government is expected to publish in the first half of 2012—

“I expect RPP2 to include changes in the policies, because in a programme for climate change that extends to 2050—members have heard me say that I expect to see the programme succeed, even though I will be 104 then—there will be changes to the plan. Some things will be taken out, others will be modified and new things will be put in. That is in the nature of the long-term goals that we have set and should set ourselves [...] progress towards targets depends on a range of issues, so although one can test provisions in the budget, the RPP—particularly as it will be superseded by a new RPP during the current year—is a more difficult document for us to deal with, when it is viewed from the perspective of a budget.”<sup>13</sup>

39. The Minister went on to note that the annual reports on progress in meeting climate change targets, required by the Climate Change Act 2009, provided “absolute clarity”<sup>14</sup> on how targets were being met.

**40. The Committee recommends that the second RPP and future budget documents are aligned so that it is apparent from reading both documents what proportion of funding is expected from all those responsible for delivering the RPP and meeting the climate change targets, and what percentage this is of the proposals and policies which need to be delivered. The Committee further recommends that the Scottish Government examine how it can better present its own spending responsibilities arising from the RPP within future budget documents to enable a more transparent tracking of spending on RPP delivery to be possible.**

### **Preventative spending and general comment**

41. The Scottish Government has stated that there will be a shift towards preventative spending and early intervention over the next three years. The draft budget asserts that spending on tackling climate change is an exemplar of preventative spending. It states that—

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<sup>13</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 256-257.

<sup>14</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 257.

“[...] our starting point is that the transition to a low carbon economy is an investment – not simply a public cost – and that this investment will help drive growth in the Scottish economy and provide a more sustainable future. Reducing Scotland’s reliance on fossil fuels and imported energy should also strengthen the Scottish economy’s resilience by reducing exposure to future volatility in world energy prices. It will in turn also help us achieve our world-leading climate change targets, under the Climate Change (Scotland) Act 2009. In this way, we will continue to make significant progress in delivering on economic opportunities while tackling the environmental imperative of climate change.”<sup>15</sup>

42. A number of written submissions to the Committee made broad criticisms about the spending on climate change mitigation and adaptation in the budget and spending review.

43. Stop Climate Chaos Scotland (SCCS) made the following recommendation to the Committee in its written submission—

“SCCS believes that this budget must, as a minimum, be amended to ensure it fully funds all of the measures set out in the Government’s own plans to meet our climate change targets, *Low Carbon Scotland: The Report on Proposals and Policies* (RPP).”<sup>16</sup>

44. In response, the Minister was very clear in telling the Committee that—

“We are on track to meet our targets. We are two thirds of the way towards our 42 per cent target [...] We are well ahead of target. We are therefore in a comfortable position, but we are not complacent about it, because we recognise that being ahead is, to a substantial extent, due to the downturn in economic activity. However, it is clear from what the UK Committee on Climate Change has said to us—it advises us on these matters—that it does not expect the rebound to be complete, and we are making some genuine, permanent changes.”<sup>17</sup>

**45. The Committee notes that the RPP states that all proposals and policies would need to be implemented, together with the establishment of a 30% EU target, in order to achieve the targets set for 2022 in the Climate Change (Scotland) Act 2009. The Committee acknowledges that the spending review period outlines spending until 2015, and not until the end of the RPP period of 2022 and therefore that this budget would not fully fund all RPP proposals and policies.**

**46. However, the Committee believes that it is essential that the Scottish Government ensures that all proposals and policies in the RPP, and in its planned successor document expected in 2012, are fully funded, and that it should continue to apply all the pressure it can to persuade the EU to establish a target of 30%.**

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<sup>15</sup> Scottish Government (2011). *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Publications/2011/10/04153155/0>

<sup>16</sup> Stop Climate Chaos Scotland. Written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>17</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 257-258.

## RPP spending within RAE portfolio

### *'Climate change' budget line*

47. The RAE portfolio contains a budget line titled 'Climate Change' which provides funding for—

Climate Change Policy Development and Implementation;  
the Sustainable Action Fund; and  
the Land Managers' Renewables Fund.

48. Overall, the 'Climate Change' budget is due to increase from this year's £17.6m, to £19.5m in 2012-13 and 2013-14, and ending the spending review period on £19.4m in 2014-15. This is an increase of 10.2% in cash terms, and 2% in real terms, over the spending review period.

**49. The Committee welcomes the increase, both in cash terms and real terms, in the 'Climate Change' budget line in the wider RAE budget but would welcome further information from the Scottish Government on what this budget line is expected to deliver in terms of meeting the targets set out in the Climate Change (Scotland) Act 2009.**

50. The Sustainable Action Fund, which is due to increase over the spending review period (9.3% in cash terms and 1.1% in real terms), includes provision for the Climate Challenge Fund which supports community projects. The Minister outlined to the Committee his intentions for forthcoming bidding rounds—

"In the new period of the fund, we are seeking expressions of interest particularly for pilots involving revenue-raising low-carbon community-led initiatives. Such initiatives might include hydro power since the change that was made in June, before which there was a limit of 1MW generation; generation above that amount had to be dealt with under section 36 of the Electricity Act 1989. The limit is now 50MW, which gives communities a bit more scope to engage. Initiatives might also include wind turbines and a range of other generation."<sup>18</sup>

**51. The Committee welcomes the increase in the Sustainable Action Fund, and hopes that this will mean that the Scottish Government has an increased capacity to support community inspired climate change projects.**

**52. The Committee recognises that funding in place through schemes such as the Climate Challenge Fund are delivering social and community goods, together with delivering emissions reductions from small scale projects. The Committee believes that the Scottish Government budget, especially for the financing of large scale projects, should follow this ethos of delivering across the range of Strategic Objectives in the National Performance Framework.**

53. The Land Managers' Renewables Fund was established in the current financial year, at £17.6m, and is due to rise to £19.5m in 2012-13 and 2014-15, before ending the review period at £19.4m.

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<sup>18</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 262.

**54. The Committee welcomes the establishment of the Land Managers' Renewables Fund and subsequent increased funding in the budget and spending review. The Committee looks forward to monitoring the distribution of the fund.**

*Other RAE spending which impacts on climate change*

55. Outside of the "Climate Change" budget line, other aspects of the RAE budget are cited in the RPP and will have an effect on achieving climate change targets. These include spending within the SRDP to help farmers, crofters and other land managers adapt to climate change (in areas such as agri-environment), spending on forestry, and the funding of agencies such as SNH and SEPA, who are tasked with delivering various Scottish Government strategies and policies which will contribute to reducing carbon emissions. The funding of these areas is discussed later in this report.

56. However, one direct area of climate change spend within the RAE budget can be found in the Farming for a Better Climate (FFBC) scheme. The FFBC is cited in the RPP as a Scottish policy which is expected to deliver 319 ktCO<sub>2</sub>e in 2020. It is not clear from the budget document how much funding is available for this programme however.

57. The Cabinet Secretary told members his intentions for the funds—

"I believe that funding will be available for the farming for a better climate programme [...] We are working with agencies to fund the climate change monitor farms that are up and running. The programme allows farmers to lead by example and lets others learn how they are adapting to low-carbon farming. We are doing our best to protect those funds within our budgets."<sup>19</sup>

**58. The Committee welcomes the Farming for a Better Climate programme, and notes the Cabinet Secretary's comment that funding will be available for the programme. The Committee requests that the Scottish Government provides more detailed information on the budget for the programme over the spending review period.**

59. The European Commission's proposals for reform of the Common Agricultural Policy (CAP) outline new requirements for farmers to be "greener" in future. Under the proposals, up to 30% of direct payments could be contingent on farmers being able to demonstrate a significant contribution to reducing climate change and meeting environmental targets. The Cabinet Secretary told members—

"Having reflected on our experience of the SRDP over the past few years, I certainly think that under the next programme we should be much more focused, particularly on the climate change agenda. I hope that the next SRDP will deliver adequate support to make agricultural production greener."<sup>20</sup>

60. The RPP also includes a policy, of giving support to anaerobic digestion through the SRDP, to assist farmers in installing anaerobic digestion facilities to process animal wastes. The RPP outlines that this will lead to expected abatement of 16 ktCO<sub>2</sub>e in 2020. The budget does not clearly show the funding that will be made available in the

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<sup>19</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 214.

<sup>20</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 215.

budget and spending review for such schemes so the Committee pursued the issue with the Cabinet Secretary. He confirmed that such schemes are funded from the SRDP “Business Development” budget. This budget is £43.8m in 2012-13, but then is due to drop to £36.8m in 2013-14 before ending the review period at £42.5, which is a similar level to that seen in 2012-13. In real terms this equates to a 10.2% reduction over the spending review period. The Cabinet Secretary told the Committee—

“We have been funding a number of those projects over the past year or two, and it is fantastic to see a number of anaerobic digestion plants being built in Scotland [...] There will be more rounds for business development, albeit that they will be more focused. However, I think that it is safe to say that, because of the reduced funding and increased focus, we will look to focus on such projects [...]”<sup>21</sup>

**61. The Committee would welcome clarification from the Scottish Government on why the “Business Development” budget is subject to fluctuation over the spending review period, and what projects would not be funded if anaerobic digestion support is prioritised.**

**62. The Committee welcomes the Scottish Government’s intention to focus on projects such as support for anaerobic digestion facilities in the context of a cut to the relevant budget line and believes that it is essential that such funding, of an RPP policy, continues to be protected as much as possible.**

#### *Peatland*

63. The Committee pursued the question of what funding would be available to support a programme of peatland re-wetting in the coming years. Although, currently, any benefits of carbon stored in peat, and therefore of re-wetting peatland to seal in more carbon in future, are not able to be counted towards the Scottish Government’s emissions reduction targets, there is a distinct possibility that this position may change. Even without any immediate change in that position, there are considerable benefits in re-wetting peatland.

64. The Minister confirmed that any programme to re-wet all peatland in Scotland would cost a significant sum of money, upwards of £60 million, and perhaps as much as £240 million. Currently, the Minister said £2 million was being spent on peatland restoration, via the SRDP.

65. The Committee asked the Minister if funds raised from the fossil fuel levy in Scotland could be used to fund a more extensive programme of peatland restoration. The Minister told the Committee—

“I am not 100 per cent sure whether the rules for the fossil fuel levy would allow it to be applied to that purpose. I do not know the answer. However, if we got access to what is our money in legal terms—it is absolutely clear under the Energy Act 2004 that the Scottish ministers are to direct such money—and it was available for the green agenda broadly, it would certainly make possible, using that money and

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<sup>21</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 219.

other money that was diverted, increased investments in peatland and in a range of other measures that are important to the agenda.”<sup>22</sup>

66. The written submission from the International Union for the Conservation of Nature (IUCN) UK Peatland Programme highlighted the benefit of peatland restoration to Scotland and the need for increased expenditure—

“There has been limited peatland restoration under current funding structures, mainly through SRDP. Identifying a specific peatland restoration fund under an enhanced climate change budget would signal leadership in delivering action and help lever in other resources.

Increased spending on peatlands under the 2012-13 budget will ensure Scotland is well placed to make the most of proposed international accounting guidelines for including peatland restoration in national ghg [greenhouse gas] reporting.”<sup>23</sup>

67. The submission went on to outline the sort of expenditure that would be required for a comprehensive restoration programme—

“Current public funding for peatland management in Scotland is estimated to amount to between £2 million and £4 million per year, largely through payments under the Common Agriculture Policy, SRDP. Even applying mid range restoration costs (£250 per ha), this would only deliver around 15,000ha of peatland restoration per year [...] A total spend of nearer £15 million per year would be more realistic.”<sup>24</sup>

68. The Committee was sent a copy of a letter<sup>25</sup> from the Minister to the Convener of the European and External Relations Committee (EERC), dated 28 October 2011, which followed up evidence given to the EERC Committee by the Scottish Government relating to peatland. In this letter, the Minister wrote that—

“The 2020 Climate Change Group has asked the Moorland Forum to set up a Peatlands Working Group, a group of interested parties, which plans to examine the question of attracting private or other funding into appropriate peatland management for climate change mitigation [...] however, it should be noted that the effects of peatland restoration on emissions are complex and to some degree uncertain; for instance re-wetting often results in an increase of methane emissions for a few years. Further research is being carried out, which I hope will clarify the effects that can be expected. Fundamentally, we need greater certainty over the effect on emissions resulting from restoration if we are to support any

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<sup>22</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 267.

<sup>23</sup> International Union for the Conservation of Nature (IUCN) UK Peatland Programme. Written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>24</sup> International Union for the Conservation of Nature (IUCN) UK Peatland Programme. Written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>25</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Supplementary written evidence from the Scottish Government. Available at:

[http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary\\_written\\_evidence\\_26\\_October.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary_written_evidence_26_October.pdf)

proposal to use public funds for peatland management on the grounds of carbon management.”<sup>26</sup>

**69. The Committee is aware that although, currently, benefits of carbon stored in peatland, and therefore of any restoration, such as re-wetting, are not counted towards climate change targets, this position may change in future. The Scottish Government therefore needs to be as well placed as possible to take advantage of this. The Committee recommends that the Scottish Government examine options for releasing further funding for research into the potential benefits of re-wetting peatland.**

**70. The Committee also recommends that the Scottish Government examine options for securing increased funding for peatland restoration in the period until the end of the spending review, if research demonstrates the positive effect on carbon emissions of doing so.**

#### **RPP spending outwith the RAE portfolio**

71. The challenges of scrutinising the Scottish Government’s spending on climate change and delivering the RPP have been set out above. The budget document contains a chapter (Chapter 3) entitled “Transition to a Low Carbon Economy”. This chapter attempts to detail progress towards the emissions targets set in the 2010 Act and outlines how the Spending Review funds the policies set out in the RPP.

72. The spending for the vast majority of these policies lies outwith the RAE budget and can mostly be found in the Finance, Employment and Sustainable Growth budget, and the Infrastructure and Capital Investment budget.

73. The Finance, Employment and Sustainable Growth budget contains a line for “Enterprise, Energy and Tourism” and the “Energy” line in that budget increases from this year’s £34.6m to £64.3m in 2012-13, an increase of 85%. It then falls in the following year to £56.2m, before increasing again, in 2014-15, to £60m. This increased expenditure, which equates to a real terms increase of 60.4% over the spending review period, is targeted funding for renewable energy projects and development.

**74. The Committee would welcome the Scottish Government clarifying the reasons for the fluctuations in the “Energy” part of the Enterprise, Energy and Tourism budget line over the spending review period.**

#### *Transport issues*

75. In terms of the Infrastructure and Capital Investment budgets, it is worth noting that expenditure on some aspects of public transport appears to fall (bus services, rail infrastructure and major public transport projects), and there is a yo-yoing budget for active and sustainable travel (it drops from £25.1m to £16m, then increases back up to £25m, then falls to £15m, over the period). Spending on the Motorways and Trunk Roads budget increases (although the substantial increase is to fund the Forth Replacement Crossing).

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<sup>26</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. Supplementary written evidence from the Scottish Government. Available at: [http://www.scottish.parliament.uk/S4\\_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary\\_written\\_evidence\\_26\\_October.pdf](http://www.scottish.parliament.uk/S4_RuralAffairsClimateChangeandEnvironmentCommittee/General%20Documents/Supplementary_written_evidence_26_October.pdf)

76. Although the Committee examine the details of the transport budget, to avoid duplication with the ICI Committee, it did pursue some of the issues raised in written evidence with the Minister.

77. In particular the Committee raised issues relating to low carbon transport, highlighted in a written submission by Stop Climate Chaos Scotland (SCCS).<sup>27</sup> In that submission SCCS calculated that the funding in the budget for low carbon transport represents only 6% of what is needed next year in order to reach the climate change targets, and only 10% of what is needed over the spending review period. The Committee asked the Minister if he was confident that the Scottish Government could lever in 94% of the money that is required to be spent next year and 90% over the spending review period. In response, the Minister said—

“I am not sure whether I recognise SCCS’s figures. We are travelling towards spending £300 million on a new train service for the Borders, which is a substantial investment in sustainable transport. Through the Edinburgh to Glasgow improvement programme, we will electrify a substantial proportion of the rail network in central Scotland. Despite its name, that programme is not just about Edinburgh and Glasgow—it extends north to Stirling and Dunblane and covers a lot. That project involves £1 billion [...]

In the past couple of days, we have just improved the support for electric vehicles. Our infrastructure investment plan, which will be published later this year, will show the investments that we will make to develop low-carbon technology on our networks. We have supported low-carbon buses, in collaboration with local authorities and bus companies. The intelligent transport system, which forms part of the strategic transport projects review, will contribute substantially to fuel economy by moderating and managing the flow of road traffic on our networks. We are also running programmes to help heavy goods vehicle drivers to drive more economically.

The long list of interventions means that I simply do not recognise the numbers that you cited. I am sure that SCCS did an honest job in working out the figures, but I do not see what calculation led it to the conclusion that it put to the committee.”<sup>28</sup>

**78. The Committee notes the concerns raised regarding the perceived lack of funding for low carbon transport, and the specific calculations detailed in the written submission by Stop Climate Chaos Scotland (SCCS), regarding an alleged funding gap. The Committee also notes the Minister’s comment that he was not sure that he recognised the figures in the SCCS submission. The Committee requests that the Scottish Government provide clarity on the Scottish Government funding available for low carbon transport and explain how this relates to the statements in the RPP regarding what is required to achieve climate change targets.**

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<sup>27</sup> Stop Climate Chaos Scotland. Written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>28</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 259.

79. The Committee also asked the Minister about the Scottish Government's commitment that 100% of public transport vehicles would use alternative fuels by 2020, given that use of such fuels has now fallen to below 5%. The Minister told the Committee—

“We continue to make the investments that take us in the right direction. In Argent Energy, Scotland has an effective biofuel manufacturing plant that recovers energy from many materials that would previously have been wasted. That fuel goes in several directions—some forms part of the mix of mineral fuels that people get when they fill vehicles with diesel and some goes into buses that run on 100 per cent biodiesel.

It is fair to say that, in relation to that work, we are still learning lessons that need to be learned [...] The Government has also supported electric vehicles. We will continue to travel towards the targets that we have set ourselves.”<sup>29</sup>

**80. The Committee is concerned about the lack of progress in improving the use of alternative fuels in public transport vehicles and recommends that the Scottish Government outline how it intends to fund increased usage over the spending review period.**

81. Finally, in terms of transport issues, the Committee notes the inclusion, in the ICI portfolio, of a Scottish Futures Fund which includes funding (£6.5m rising to £37.5m over the spending review period) for “Warm Homes” and a “Future Transport Fund”. The budget document explains that the transport aspect of this funding will “enable us to reduce the impact of transport on our environment, reducing congestion and supporting better public transport, active travel and low carbon vehicles”.<sup>30</sup> When questioned on the detail of exactly how much funding would be available and how it would be spent, the Minister replied that an announcement on that would be made at a later date.<sup>31</sup>

**82. The Committee recommends that the Scottish Government publish details of its planned spending on the Future Transport Fund over the spending review period as soon as possible.**

#### *Housing energy efficiency*

83. In terms of housing energy efficiency, the Housing and Regeneration line contains level 3 figures which outline three budget lines—

- Supporting Economic Growth/Housing Supply;
- Supporting Sustainability; and
- Supporting Transitions.

84. However, it is not possible to see the detail of the funding for schemes within these larger figures, such as the Energy Assistance Package and Home Insulation Scheme.

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<sup>29</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 260.

<sup>30</sup> Scottish Government (2011). *Scottish Spending Review 2011 and Draft Budget 2012-13*. Available at: <http://www.scotland.gov.uk/Publications/2011/09/22135416/0>

<sup>31</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 263.

85. The Committee asked the Minister how much funding would be available for the Energy Assistance Package and Home Insulation Scheme, and he said—

“On the universal home insulation scheme, we are increasing the number of offers that we are making from 500,000; by April next year it will be 700,000. As the cabinet secretary announced, we have increased the fuel poverty and insulation line by a further £5 million, bringing the total spend this year to £53 million, and the overall budget for supporting sustainability has been increased to about £328 million during the spending review period. In particular—as we have been talking about the RPP—I remind the committee that all the fuel poverty and insulation programmes in the RPP are fully funded.”<sup>32</sup>

86. However, the Minister was keen to explain the context of such funding, noting that—

“It is worth making the point that not all the schemes in the area of activity that we are discussing are Scottish Government schemes. For example, the carbon emissions reduction target and the community energy saving programme, which are being replaced by the green deal, are UK Government schemes, and they make a contribution.”<sup>33</sup>

87. As the Minister noted, the RPP is not intended to be solely funded by the Scottish Government, but by, amongst other players, the UK Government via the UK Government schemes mentioned by the Minister. The Committee asked the Minister if the Scottish Government had plans in place to achieve its climate change targets if the potential UK funding was not forthcoming. In response, the Minister said—

“We cannot yet judge the effect of the UK Government’s new schemes, but we do not want to put ourselves in a position in which our actions would reduce the likelihood of our getting the level of funding that we need from the schemes that the UK Government is promoting.

In the early days of the CERT scheme, we certainly did not get what I would regard as our fair share, although our need was greater because the climate is less benign the further north one goes. The Cabinet Secretary for Infrastructure and Capital Investment, Alex Neil, has met Chris Huhne and reports that the meeting was positive. We have good engagement and we are working with the Department of Energy and Climate Change and its officials. Consultations will be out shortly.”<sup>34</sup>

88. With regard to energy efficiency in housing, the RPP states that there needs to be a doubling of carbon abatement in homes from 2011 to 2012, from 88 kilotonnes of

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<sup>32</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 263-264.

<sup>33</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 263.

<sup>34</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 264-265.

carbon dioxide to 190 kilotonnes, in order to meet the climate change targets. The Minister told the Committee that he was confident that this target would be met.<sup>35</sup>

**89. The Committee supports the Scottish Government's efforts to obtain the best deal for Scotland in securing funding from UK administered climate change schemes, such as the green deal.**

**90. The Committee acknowledges that full details of some of the UK Government's climate change schemes are yet to be finalised and therefore the Scottish Government will not currently know to what extent they may be able to access such schemes. However, the Committee believes that the Scottish Government should develop contingency planning to ensure that any lack of funding via UK Government schemes does not affect Scotland's chances of meeting the climate change targets set out in the Climate Change (Scotland) Act 2009. The Committee therefore asks the Scottish Government to update the Committee on what plans might be developed to mitigate the effect of any shortfall in funding from UK administered climate change schemes.**

#### *Public sector energy efficiency*

91. The RPP states that—

“[...] the Energy Efficiency Action Plan sets out the Government's intention to maximise financial support for public sector energy efficiency projects. Subject to future spending reviews and Parliamentary approval, the Government will seek to establish a new public sector energy efficiency fund, of sufficient scale to encourage ambitious projects.”<sup>36</sup>

92. The Committee asked the Minister what progress there had been in establishing a public sector energy efficiency fund, and he said that he was not aware of any progress currently, adding that he would update the Committee when there were any developments. He explained that—

“Detail continues to be worked up on a wide range of initiatives, not just in relation to climate change, but across Government. That is how things work, particularly with a three-year spending review.”<sup>37</sup>

**93. The Committee recommends that the Scottish Government confirm its intentions regarding supporting public sector energy efficiency as soon as possible.**

#### *Carbon capture and storage*

94. The RPP outlines the role that carbon capture and storage can play in helping Scotland meet its climate change targets, stating that—

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<sup>35</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 264.

<sup>36</sup> Scottish Government (2011). *Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022 – The Report on Proposals and Policies*. Available at: <http://scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/rpp>

<sup>37</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 266.

“Scotland is also in pole position to develop the UK’s first commercial-scale carbon capture and storage (CCS) project at Longannet, and to capitalise on its position as the EU’s largest potential offshore CO<sub>2</sub> store [...] EU and UK funding for CCS demonstration projects to sequester emissions from conventional generation. The UK Government Comprehensive Spending Review (CSR) in 2010 identified that £1 billion of funding is still available for CCS demonstration. Scotland is taking a lead in the development of CCS technology. Following the withdrawal of Kingsnorth from the UK competition, Scotland’s Longannet coal fired station is now the clear frontrunner for UK funding, and could also benefit from co-financing under the EU’s New Entrant Reserve competition.”<sup>38</sup>

95. The Committee is aware that the UK Government recently announced that the Longannet project would not be going ahead and the Minister told the Committee that this decision was “deeply disappointing”.<sup>39</sup>

**96. The Committee shares the Minister’s disappointment that the Longannet project will not be taken forward. However, the Committee would welcome information from the Scottish Government on what impact this will have on the ability of the RPP to deliver the Scottish Government’s climate change targets, and what steps the Scottish Government will now be taking in terms of carbon capture and storage.**

### **Carbon assessment of the budget**

#### *Previous consideration of the carbon assessment tool*

97. Section 94 of the Climate Change (Scotland) Act 2009 requires the Scottish Government to publish details of the impact of budget proposals on emissions alongside the draft budget. The document should describe the direct and indirect impact on greenhouse gas emissions of the activities to be funded in the draft budget.

98. The Scottish Government first published its carbon assessment of the draft budget in 2009, which was scrutinised by the previous Transport, Infrastructure and Climate Change Committee (TICC), as was the carbon assessment published in 2010.

99. The TICC Committee welcomed the publication of the first carbon assessment and made a number of recommendations on how it could be developed to more accurately reflect emissions related to government spend in future draft budgets. Specifically it recommended that the Scottish Government should seek independent advice on the appropriateness and effectiveness of the methodology chosen. This recommendation was repeated in relation to last year’s carbon assessment of the 2011-12 draft budget along with the recommendation that the methodology should be refined in order that the emissions related to individual policies could be assessed.

#### *The carbon assessment of the 2012-13 Draft Budget*

100. The carbon assessment document<sup>40</sup> confirms that it continues to capture solely emissions associated with the purchasing of goods and services and not the emissions

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<sup>38</sup> Scottish Government (2011). *Low Carbon Scotland: Meeting the Emissions Reduction Targets 2010-2022 – The Report on Proposals and Policies*. Available at:

<http://scotland.gov.uk/Topics/Environment/climatechange/scotlands-action/lowcarbon/rpp>

<sup>39</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 269.

associated with the use of public services and infrastructure. It acknowledges that to gain a complete picture on emissions associated with the use of public goods and services, the assessment should be read alongside the RPP.

101. The methodology used this year in the assessment remains high-level in nature and applied to portfolios as a whole. According to the assessment, it is estimated that total emissions resulting from the 2012-13 Draft Budget will be 7.4 mtCO<sub>2</sub>-equivalent with the amount of carbon for each pound of expenditure across the different areas of Government spending not varying greatly. The assessment states that over time, reductions in the emissions intensity of the economy as a whole will drive down the estimated carbon impact of future budgets.

102. The 2011-12 carbon assessment showed an emissions total of 7.6 mtCO<sub>2</sub>-equivalent for a spend of £33.6 billion which translates to a reduction in this year's estimate of 3.1% compared to last year, primarily due to a reduction in spending.

103. Emissions remain broadly proportional to spend, with the Health and Wellbeing and Local Government portfolios continuing as the two largest budget items with the highest emissions. There are two portfolio areas where this is not the case, Rural Affairs and Environment and Infrastructure and Capital Investment, where emissions are proportionately more than spend. The reasons for this are that spends are linked to carbon-intensive production methods for Rural Affairs and Environment and for Infrastructure and Capital Investment it reflects the high emissions associated with construction projects.

**104. The Committee accepts that the process of providing a carbon assessment of the budget, using the carbon assessment tool, and of carbon accounting, is still developing. However, the Committee notes that the progress of developing the Scottish Government's carbon accounting needs to be improved, ideally before the next budget, and therefore recommends that the Scottish Government examine options for securing further funding to assist this development to ensure that a more effective carbon assessment of the budget can be undertaken in future.**

**105. The Committee also recommends that an update on progress is provided as part of the annual reporting required under the Climate Change (Scotland) Act 2009.**

**106. The Committee recommends that the Scottish Government give consideration to redesigning the carbon assessment tool so that it could be used by Parliament to assess other budget options, rather than only being used to produce a snapshot of the draft budget. The Committee hopes that the Finance Committee, and its adviser, would be able to make use of an improved carbon assessment tool in analysing future Scottish Government budgets, across all portfolios.**

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<sup>40</sup> Scottish Government (2011). *Carbon Assessment of the 2012-13 Draft Budget*. Available at: <http://www.scotland.gov.uk/Publications/2011/09/21111152/0>

## OTHER ASPECTS OF THE RURAL AFFAIRS AND ENVIRONMENT BUDGET

### Overview

107. Spending provisions for the Rural Affairs and Environment (RAE) portfolio is largely dominated by provision made for the Common Agricultural Policy (CAP) with other spending objectives related to Non-Departmental Public Bodies such as SNH, SEPA, the Forestry Commission and Enterprise, Marine Scotland (a collective of bodies), and a range of other initiatives including research undertaken by the main research providers and other initiatives by non-government charities. The portfolio also encompasses some climate change provisions.

108. The notable reductions in RAE budget lines have come in the following areas—

- the EU Support and Related Services budget has continued to fall, dropping from £139.7m in 2011-12, to a projected £103.3m in 2014-15 (or £95.6m in real terms at 2011-12 prices). Within this, the single farm payment, Scottish beef calf scheme, less favoured area support scheme, LEADER, technical and crofting assistance and CAP compliance improvements budgets all remain static until 2014-15. The reductions therefore come in the agri- environment measures budget (from £48.9m to £38m across the period), forestry (from £4.3m to £2.4m across the period), rural enterprise (£14.6m to £9m across the period), rural communities (£6.5m to £4m) and payment and inspection administration costs (£38.5m to £33.6m);
- the Research, Analysis and Other Services budget also takes a notable cut, dropping from £81.4m in 2011-12, to a projected £73.2m in 2014-15 (£67.7m in real terms);
- the Marine and Fisheries budget falls during the period but ends in 2014-5 slightly increased on the 2011-12 budget, at £61.7m, but in real terms as opposed to cash terms, it is a drop to £57.1m; and
- the Forestry Commission budget falls from £45.2m to £41.4m (£38.3m in real terms), and Forestry Enterprise from £25.8m to £21.7m (£20.1m in real terms).

109. In terms of significant additional budget allocations, there is a notable increase in the Environmental and Rural Services budget, from £169.6m in 2011-12 to £192.8m (or £178.4m in real terms) in 2014-15. This is because of the recent devolution of the UK's animal health and welfare budget.

### EU support and related services

110. The “EU support and related services” budget line largely consists of grant schemes for farmers and crofters that are wholly or partly funded by the EU. In 2011-12 the EU funding was £552.2m, with the Scottish Government spending £139.7m. Over the next three budget years, the EU Income rises to a projected £561.5m in 2014-15, an increase of 1.7%, whilst the Scottish Government funding steadily falls to £103.3m in 2014-15, a drop of 26%.

111. Agricultural, agri-environment and rural development elements of the budget stand out in terms of their size, albeit representing, to a considerable extent, payments that are 100% funded from EU as well as domestic spending, some of which is matched to EU funding under pre-arranged co-financing arrangements. The main distinction on funding relates to items included under Pillar 1 versus Pillar 2 of the CAP.

112. Pillar 1 represents remaining price support and a direct Single Farm Payment (direct support) and the Scottish Beef Calf scheme. These are 100% EU funded and stay unchanged. This means that any budgetary reduction occurs within the provisions of Pillar 2, which broadly covers the nationally determined (but agreed with the EU) Scotland Rural Development Programme (SRDP) made up of a number of schemes including, most significantly, Less Favoured Area support and agri environment spending. Pillar 2 spending is conventionally grouped under three thematic axes, which roughly distinguish measures relating to: i) increasing competitiveness/ productivity; ii) environmental measures; iii) quality of life/social measures as well LEADER (Links Between Activities Developing the Rural Economy)<sup>41</sup> (axis 4). The axes allow some discretion for member states to define priorities, but they (the distinctions) can become blurred when translating them into budget categories and the tables used here.

113. In the Scottish context, the SRDP covers eight delivery mechanisms, the share of each being demand driven. In the current economic context (i.e. low economic growth) some of this spending discretion (between eight pots) has led to a perceived pre-disposition in favour of supporting economic objectives, e.g. through LEADER whilst reducing agri environmental spending. It is worth noting also that while the Rural Enterprise line appears to be falling considerably, this may partly be accounted for by the end of two legacy schemes counted under this category – including phasing out of land management contracts.

114. The details of the fall in the budget in these areas are: agri-environment falls by £10.9m, 22%, over the period, and the rural enterprise line falls by £5.6m, 38%, over the period. The other significant cuts can be found in the capital budget for “EU support and related services” as a whole, which falls by 50% in the period.

#### *Balancing of SRDP funding*

115. The Cabinet Secretary explained to the Committee that the SRDP budget lines, as outlined in the budget and spending review, should not be taken as the exact amount of spending that will occur under each scheme—

“Clearly the SRDP is a massive programme that includes many schemes. We are constantly trying to balance our budgets and look at the demand for applications under each heading. We are constantly trying to shift funds from one heading to another. Agri-environment schemes might be more popular than business development, for instance. We are constantly trying to give positive responses to as many applications as possible, so sometimes we shift the budgets between headings. That also applies to the co-financing rates. In the past if we have had a lot of money available domestically, we have been able to make the European money go further by calling down less of a co-financing rate—say 40 or 50 per

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<sup>41</sup> The aim of LEADER is to increase the capacity of local rural community and business networks to build knowledge and skills, and encourage innovation and co-operation in order to tackle local development objectives.

cent. However, as domestic funds become tighter, the co-financing rate is increased to ensure that the schemes get funded. That is how it works; it is a constant battle that involves balancing budgets and shifting money between different headings.”<sup>42</sup>

116. In additional information provided to the Committee after the Minister’s appearance, the Scottish Government confirmed this approach—

“The Spending Review required difficult decisions to be taken in our efforts to sustain public finances and public services, and it is not possible to adjust the overall SRDP budget set out in the Review. However, within the SRDP, budgets do have some element of flexibility to be used where demand is highest, particularly if it is within the same Axis, subject to EC approval.”<sup>43</sup>

**117. The Committee recommends that the Scottish Government closely monitor the number of applications being made across its managed SRDP programmes, and ensures that sufficient funding is made available to the schemes in most need.**

*Agri-environment budget*

118. Of most concern to the Committee, was the significant cut to the agri-environment SRDP budget line. This issue also drew a great deal of comment in several of the written submissions received by the Committee. For example, RSPB Scotland stated that—

“The most concerning proposal in the spending review is a significant reduction in funds allocated to agri-environment schemes [...]”<sup>44</sup>

119. Concern was also expressed by the Scottish Wildlife Trust in its written submission—

“[...] cutting support to Agri Environment schemes by over a fifth at this time seems a retrograde step which will damage biological diversity and set back the growth of wildlife-friendly farming to the detriment of the wider environment and national progress towards meeting international biodiversity targets such as those agreed at the Convention of Biological Diversity meeting in Nagoya in October 2010 and the EU biodiversity strategy for 2020.”<sup>45</sup>

120. The Cabinet Secretary told the Committee—

“[...] we are confident that the agri-environment schemes we will fund over the next three years will meet demand. We have looked very carefully at demand in recent years and the size of the projects that are being proposed for the next couple of years and have tailored our budgets to meet that demand. There has

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<sup>42</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Cols 217-218.

<sup>43</sup> Scottish Government. Supplementary written evidence to the Rural Affairs, Climate Change and Environment Committee.

<sup>44</sup> Royal Society for the Protection of Birds Scotland. Written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>45</sup> Scottish Wildlife Trust. Written submission to the Rural Affairs, Climate Change and Environment Committee.

been a modest reduction in the budget headings but the fact is that, in the first couple of years of the SRDP, there was a very slow take-up of agri-environment schemes. That was followed by two peak years—this year and the year before—and our budget for the next three years reflects what we see as the level of demand in the years ahead, which is similar to that in previous years. As I have said, we are confident that our agri-environment budget will meet demand.”<sup>46</sup>

121. The Scottish Government helpfully provided the Committee with detailed additional information regarding the agri-environment budget, in response to the Committee’s concerns about the large cut the line appears to receive in the budget and spending review. The letter sent to the Committee restates the Scottish Government’s confidence that the funds allocated will be able to meet demand—

“The combined demand for agri-environment support as evidenced by demand through 2011 and 2012 is currently £36.5m, hence the Cabinet Secretary statement from 5 October that he was “confident that our agri-environment budget will meet demand” (budget is £38m).”<sup>47</sup>

**122. The Committee notes the 22.3% cut in cash terms, and 28.1% cut in real terms, in the agri-environment budget over the course of the spending review period and the concerns expressed in written evidence about the negative affect this could have. The Committee further notes the Cabinet Secretary’s comment expressing confidence that the funding available will be able to meet demand. The Committee recommends that the Scottish Government provide annual updates to the Committee on the number of applications for agri-environment funding and how many of those applications have been fully and partially successful.**

#### *SRDP co-financing*

123. The Cabinet Secretary told the Committee that—

“We are [...] trying to maintain as much spending power as possible over the next three years by increasing co-financing rates. That will be reflected in the SRDP and other European funds. In short, then, we will squeeze out every last drop of European funding and increase co-financing to its maximum possible rate to maintain as much spending power as possible—even though, because of our budget constraints, more will come from Europe and less from domestic funding.”<sup>48</sup>

124. Following questioning by the Committee, the Cabinet Secretary and his official confirmed that such increased co-financing rates need to be approved by the EU but the Scottish Government was hopeful of a rate of up to 63% being approved and that it would be applied to its rural priorities schemes.

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<sup>46</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 216.

<sup>47</sup> Scottish Government. Supplementary written evidence to the Rural Affairs, Climate Change and Environment Committee.

<sup>48</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Cols 216-217.

125. **The Committee would welcome further information, in due course, from the Scottish Government on its plans for co-financing; what the newly agreed rates are; and which specific schemes the various rates will apply to.**

*New entrants*

126. The failure to attract new entrants into farming in Scotland in large numbers remains a significant concern and the Committee notes from the budget document that there is no specific budget line to support new entrants. The Cabinet Secretary confirmed there was money available but that SRDP funding was decreasing over the spending review period, adding that—

“There is not a specific budget heading in the SRDP for new entrants, but we have a policy of supporting applications for new entrants to the general pot. So far, there have been 79 applications for new entrants to the SRDP, of which 63 have been approved [...] Things have not gone as well as we would have liked because of external factors as well as funding issues, but at least we are helping some new entrants. The vast majority have had their applications approved, to a value of just under £2 million overall. We said that we would make money available in the SRDP for new entrants, and we will do that. We will ensure that the current budgets cater for applications for new entrants.”<sup>49</sup>

127. The Cabinet Secretary added that the number of application had been increasing in recent years, but at a “trickle”<sup>50</sup>.

128. **The Committee notes that the overall money available in the SRDP is decreasing which could lead to a decrease in the number of successful applications from new entrants at the same time that the number of applications for such funds is increasing, albeit at something of a trickle. The Committee believes that it is essential that, in the face of an ageing farming population,<sup>51</sup> the Scottish Government continue to examine how new entrants can be encouraged into farming in greater numbers and that the funding available can be maximised to best effect. The Committee would welcome annual updates from the Scottish Government on the number of initial assessments, applications, number approved, type of actions funded, and funding spent on new entrants each year.**

*Administration of the SRDP*

129. An on-going concern of the Committee, and of its predecessor committee, surrounds the high level of bureaucracy and inefficiencies in the administration of some SRDP funds. The Committee is keen to ensure that the valuable funds that are available for SRDP programmes are not compromised by avoidable inefficiencies, or risk-averse officers, especially in the current financial climate.

130. The Cabinet Secretary told the Committee—

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<sup>49</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 220.

<sup>50</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 220.

<sup>51</sup> Consideration of managing the ageing farming population and attracting new entrants into farming should include the issue of ensuring the provision of sufficient affordable rural housing for retiring farmers. The previous Rural Affairs and Environment Committee published a report on rural housing in 2009, which is available at: <http://archive.scottish.parliament.uk/s3/committees/rae/reports-09/rur09-05.htm>

“I can only apologise to many applicants who have not had good experiences of the SRDP in terms of the bureaucracy. As I have explained to MSPs many times, a large part of that is down to the European hoops that we have to jump through. However, we hold our hands up, because I am sure that there are many things that we could have done to implement the scheme better in Scotland.

The backdrop is that 4,500 projects have been successful under rural priorities alone, which has led to fantastic projects running throughout the country. We tend to hear about the projects that have some difficulties and problems, but they are a tiny minority of the overall 4,500. However, I accept that some community groups throughout the country face some very unwelcome situations. We have taken a number of steps to deal with that and, thankfully, the number of projects that face difficulties has been reducing dramatically over the past year or so [...] Fast-tracking mechanisms have been introduced for many schemes, which means that many people do not have to go through a long decision-making process if they fall under certain thresholds, and we are always improving application processes. However, we did not design the SRDP in the first place. As I have said in the past, it is like having designed a fancy new engine and a fancy new car and no one switching on the engine to see whether it works before it is sold. We have found ourselves constantly having to fix the engine with the SRDP.”<sup>52</sup>

**131. The Committee notes the cut in the budget for administering the SRDP. In relation to support for the agriculture sector, which is so important in economic, environmental and social terms to much of rural Scotland, the Committee welcomes the Cabinet Secretary’s pledge to tackle inefficiencies in the Scottish Rural Development Programme (SRDP) application process. The Committee would welcome annual updates from the Scottish Government on the administration of SRDP programmes.**

#### **Research, Analysis and Other Services**

132. The fall in this budget line is almost entirely contained in the Programmes of Research line, which falls by 11% in cash terms (17.8% in real terms), from £62.7m to £55.7m over the spending review period – most of which is a cut in the resource, rather than the capital, budget which is only 4% or so of the overall budget. The Scottish Government’s main research providers are the University of Aberdeen’s Rowett Institute of Nutrition and Health, the Royal Botanic Garden Edinburgh, The James Hutton Institute, Moredun Research Institute, and the Scottish Agricultural College.

133. Written evidence from the James Hutton Institute<sup>53</sup> notes that two thirds of its funding comes directly from the Scottish Government, and that the budget outlines continued, but reduced, funding for research in the rural affairs, climate change and environment portfolio. The submission highlights examples of the economic, environmental and social benefits of their research.

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<sup>52</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Cols 218-219.

<sup>53</sup> James Hutton Institute. Written submission to the Rural Affairs, Climate Change and Environment Committee.

134. The Cabinet Secretary emphasised that research institutions could not be completely immune from budget cuts, but that the Government had made efforts to protect the budgets, particularly for the main research providers, as much as possible. He did concede, however, that institutions would need to make an even greater effort to attract external funding from the private sector in particular. He remained confident, however, that the level of funding was sufficient to continue to match the ambitions of the institutions.<sup>54</sup>

**135. The Committee notes the importance of research, across the RAE portfolio, in terms of contributing to preventative spending, and cautions the Scottish Government against making cuts in the shorter term which may have a negative impact in years to come.**

**136. The Committee notes that funding for the major research providers has been protected from severe cuts over the spending review period. However, the cuts that are outlined will continue to challenge research providers to maintain and build upon the excellent scientific research that underpins so much of the Scottish Government work across the portfolio, and that is vital in the context of preventative spending. The Committee believes that institutions will be increasingly required to explore other means of funding and encourages the Scottish Government, and the institutions concerned to explore avenues of funding such as European Research Framework Programmes (current FP7<sup>55</sup> and the forthcoming Horizon 2020<sup>56</sup>).**

#### **Marine and fisheries**

137. The overall budget here remains fairly static, fluctuating between a high of £61.7m and a low of £58.4, across the spending review period, which is a cut of 0.7% in cash terms and 6.9% in real terms. However, within this overall figure, the Marine Scotland budget falls by 6% whereas the EU Fisheries Grants budget increases by 68%. Also, the resource budget falls steadily, and the Capital budget remains static before a substantial increase.

138. Mike Neilson, from DG Enterprise and Environment at the Scottish Government, noted that it was a real challenge to meet the ambitious marine and fisheries agenda within a tight budget and gave examples of how Marine Scotland is striving to make further efficiency savings. Examples included making use of multi-function trips, where scientists collecting various data could use one vessel instead of making separate trips.<sup>57</sup>

139. The Cabinet Secretary explained that the significant increases in the EU Fisheries Grant and capital resource budgets in the final year of the spending review,

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<sup>54</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 222.

<sup>55</sup> The 7th Framework Programme for Research, Technological Development and Demonstration activities (FP7) is the EU's research support instrument for the period 2007-2013.

<sup>56</sup> The EU has announced that the successor to FP7 will be called: "Horizon 2020 – the Framework Programme for Research and Innovation."

<sup>57</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 224.

2014-15, were due to additional resource being targeted at the start of new programmes as part of a reformed Common Fisheries Policy (CFP) from 2014 onwards.<sup>58</sup>

**140. The Committee is currently scrutinising the EU’s proposed reforms to its Common Fisheries Policy, and the potential impacts on Scotland’s fisheries and related sectors. That work includes examining funding issues. The Committee will continue to monitor the Scottish Government’s spending across its marine and fisheries portfolio.**

### **Environmental and rural services**

#### *Scottish Government agencies - SNH*

141. The largest part of this budget line is the funding for the agencies – SNH, SEPA and the National Parks. Of these agencies, SNH is due to experience the most significant budget cut – part of a pattern of reduced funding for SNH over recent years. Over the course of the spending review period the budget for SNH is cut by 12.7% in cash terms, which equates to a cut of 19.2% in real terms.

142. Officials explained that the majority of this funding reduction will be achieved in the personnel budget, via the severance schemes SNH has been running, and natural reduction in staff. However, there is also likely to be a cut to grants available to third sector organisations. Written evidence from the Scottish Wildlife Trust raised concerns about cuts to SNH’s budget and stated that “functions central to the conservation of biodiversity will be put at risk”<sup>59</sup> as a result.

143. Given SNH’s decreasing budget but increased responsibilities, given to it through legislation over recent years, the Committee questioned the Minister on the Scottish Government’s confidence that SNH could continue to fully discharge its responsibilities in the face of a declining budget. The Minister told the Committee—

“SNH has been working successfully to improve its internal efficiency. Of course, we have refocused the way in which SNH works. Particularly in relation to planning, it is now more of an adviser to decision makers than a decision maker itself. There has therefore been a change in the character of the work that it undertakes. The number of projects that it might object to is heading towards single figures per annum, whereas it was previously a substantial number. SNH believes that there are significant ways in which it can continue to improve its efficiency, in particular managing vacancies in a different way from how it was done in the past. A reduction in expenditure is therefore at least as much a reflection of a different approach.

The Government is, of course, engaged with a substantial overall reduction in capital expenditure, and there certainly will be a significant capital reduction over the period. That will have some effect on grants to the third sector, but we are working with people in that sector to ensure that we get the best bang for our buck.

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<sup>58</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 224.

<sup>59</sup> Scottish Wildlife Trust. Written submission to the Rural Affairs, Climate Change and Environment Committee.

However, the figures in the area reflect the overall pressures on the Government's budgets."<sup>60</sup>

144. The Committee is also aware that SNH has a leading, or significant, role to play in the delivery of many Scottish Government policies and strategies, such as those relating to land use, biodiversity and climate change, and also in using funds discussed above, such as the agri-environment budget, to help deliver such policies.

145. The Scottish Government provided the Committee with helpful additional information on the role of SNH in these matters<sup>61</sup> and the Committee notes the contents of that letter.

**146. The Committee notes concerns expressed regarding the ability of SNH to fulfil its responsibilities with regard to key Scottish Government policies and strategies, such as those on land use and biodiversity, in the context of a significantly declining budget. The Committee recommends that the Scottish Government evaluate the impact of such budget cuts on the relevant strategies and reports back to the RACCE Committee.**

**147. The Committee also notes that the reduction in the budget for SNH is likely to impact on grants for third sector organisations and asks the Scottish Government to work closely with SNH to minimise the impact on such organisations.**

*Scottish Government agencies – SEPA and the National Parks*

148. The budget reduction for SEPA is smaller in percentage terms than that faced by SNH (SEPA's budget is cut by 4.8% in cash terms and 12% in real terms). The Minister explained that this was due to the fact that SEPA had completed a range of efficiency measures at an earlier stage than SNH and had therefore achieved desired efficiency savings at an earlier time.

149. In terms of the National Parks, the Minister explained the modest increase in its budget—

“That is to do with an increase in capital expenditure. Loch Lomond and the Trossachs national park's resource budgets in particular will reduce by a certain amount. It is worth saying that the capital expenditure budgets are comparatively modest, so any increases in them distort the figures. The current year's national parks budget of £12.44 million is heading towards £12.88 million in 2014-15. We have managed to find additional funding for them, but the numbers are pretty small.”<sup>62</sup>

*Zero waste strategy*

150. The budget available to fund the zero waste strategy is protected across the period at £26.4m (although amounts to a cut in real terms).

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<sup>60</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 278-279.

<sup>61</sup> Scottish Government. Supplementary written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>62</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 279.

151. The Cabinet Secretary accepted that this was a real terms cut in the budget, but emphasised to the Committee that a frozen budget over the period, given the current economic context, sent a positive signal in terms of the Scottish Government's commitment to meeting its waste targets. He added that Zero Waste Scotland had assured the Government that the funding available would be sufficient and that there would be no adverse impact.<sup>63</sup>

**152. The Committee notes that the funding for delivering the Scottish Government's zero waste targets has been protected, albeit amounting to a real terms cut over the spending review period. The Committee understands that secondary legislation on this issue will be introduced by the Scottish Government in the next few months and the Committee looks forward to scrutinising this legislation, including its financial provisions, in due course.**

#### *Rural broadband*

153. Other parts of the Environmental and Rural Services budget line of note include the Scottish Government's creation of a Next Generation Digital Fund, which begins at £8m and increases to £12m and £15m until 2014-15. The predominant purpose of this fund is to improve broadband facilities in rural Scotland in particular.

154. The Cabinet Secretary told the Committee that work was on-going as to how rural areas would be defined in this context, and that further information on how the funding would be spent would be published in March 2012.<sup>64</sup>

**155. The Committee welcomes the funding that has been made available to support the provision of, and improvement of, broadband services in rural areas and believes that establishing superfast broadband across rural Scotland is essential to fully unlock the economic, environmental and social potential of those areas.**

**156. The Committee believes that a priority of the fund should be targeting those parts of the country with the poorest broadband coverage and would therefore welcome more information from the Scottish Government on how "rural" areas will be defined in the context of the fund, and how the funds that have been made available will be spent in practice.**

#### *Food and drink*

157. The Committee welcomes the 150% increase in the budget for food industry support and further welcomes the invitation from the Cabinet Secretary that the Committee gives its views on how the additional expenditure should be allocated.

158. The Committee will engage further with the Scottish Government on this issue over the coming months, and hopes that the funding can help to improve links in the supply chain, provide better support for smaller suppliers, develop further 'plough to plate' style food education programmes in schools, and further improve the 'good news' messages of Scottish produce, particularly in terms of health benefits (in the soft fruit sector for example).

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<sup>63</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Cols 221-222.

<sup>64</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 5 October 2011, Col 226.

159. **The Committee welcomes the Scottish Government’s decision to increase its food and drink budget by 150%, which is particularly encouraging in the current economic climate. The Committee notes the Cabinet Secretary’s invitation to the Committee to help inform the Government’s thinking on how that additional funding would best be allocated and looks forward to engaging further with the Scottish Government to discuss practical suggestions.**

*Land fund*

160. The “Rural Cohesion” budget contains provision for a land fund. The overall “Rural Cohesion” budget increases from £2.7m in the current financial year, to £3.4m next year, and then increases by £200,000 in each of the following years. This amounts to an additional £700,000 increase in funding, rising to £1.1m.

161. However, it is not clear how much of this budget is intended to be used for the land fund. When questioned, the Minister told the Committee—

“[...] we are looking to lever in funds from elsewhere. That work is on-going, so it would be misleading to give numbers at this stage, because they would not represent where we expect to be on the Scottish land fund. It is certainly clear that, in its previous incarnation, it was a successful intervention, which we wish to pick up [...] I am not in a position to say [when the land will be available]. I can say only that I have had a series of meetings on the subject and that it is actively being worked on at the moment. Clearly, we are working with others, so I cannot in all candour give you a date at this stage for which I could be held to account. However, it is an early priority for us.”<sup>65</sup>

162. **The Committee welcomes the inclusion of a land fund in the budget and spending review. However, the Committee would welcome further detailed information in relation to a number of areas, including: how much money will be available year-on-year; what role external funding will provide and how it will be sourced; when the fund will be available; what area the land fund will cover; and who will be eligible to access the fund.**

163. **The Committee recommends that the Scottish Government provides clarity on these issues as soon as possible.**

*Natural Assets and Flooding*

164. The Committee notes that the budget for the Natural Assets and Flooding line, which supports the development of the Scottish Government’s flooding, water environment and air and noise policy and funds discrete projects, basically remains static over the period, with small drops in funding in 2012-13 and 2013-14. Over the spending review period, this equates to a 7.5% cut in real terms.

165. The Scottish Government helpfully provided the Committee with some additional information on this budget line, which included examples of projects supported under the fund. The letter from the Scottish Government concluded that—

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<sup>65</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 277.

“It is an important area which is why we have broadly maintained spend, despite financial pressures forced on the Government.”<sup>66</sup>

166. **The Committee notes that the funding of the Natural Assets and Flooding budget has been broadly maintained in cash terms, but that nevertheless this amounts to a 7.5% cut in real terms. The Committee welcomes the Scottish Government broadly maintaining spend in this area, and urges the Scottish Government to ensure important projects, such as supporting water environment restoration, improved flood forecasting, and providing land managers with incentives to support natural flood management, continue to be funded.**

### **Forestry Commission and Forest Enterprise**

167. Of note in these budget lines are the static budget for woodland grants – which is money to fund the planting required to meet the Scottish Government’s forestry cover targets – which remains at £36m across the spending review period. However, this equates to a real terms cut of 7.5% over the spending review period.

168. The Scottish Government is committed to achieving planting rates of 10,000 hectares a year, although the proposal in the RPP is even more ambitious at 15,000 hectares a year. The Minister told the Committee that planting rates were improving—

“In 2009-10, 2,700 hectares were planted and, this year, the figure has nearly doubled, to 5,100 hectares. Approval for planting this year is already at 7,000 hectares. We are therefore seeing quite a steep rise.”<sup>67</sup>

169. The Minister went on to highlight some of the difficulties that have been encountered in administering the woodland grants—

“The difficulty with the woodland grants scheme, which we will consider further, is that the balance between fast-growing crops that can contribute to the forestry industry and traditional woodlands has been different from what was anticipated. It was anticipated that the balance in where the money went would be of the order of 60 per cent for harvestable fast-growing crops and 40 per cent for traditional woodland, but the balance has been different. About 80 per cent has gone into traditional woodland and only 20 per cent has gone into the fast-growing crops. We need to consider that to find out how we can get more bang for the bucks that we spend. We must ensure that the scheme delivers for the growing industry and that there is appropriate support for the range of timber industries, including the sawmilling and house building industries.

We have streamlined the application process for the scheme, which has helped to an extent, but we can do more to ensure that the permissions that are necessary to achieve planting are delivered more quickly.”<sup>68</sup>

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<sup>66</sup> Scottish Government. Supplementary written submission to the Rural Affairs, Climate Change and Environment Committee.

<sup>67</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Col 274.

<sup>68</sup> Scottish Parliament Rural Affairs, Climate Change and Environment Committee. *Official Report*, 26 October 2011, Cols 274-275.

170. It seems that there is still work to be done to ensure that the money available for woodland grants is effectively spent, and **the Committee recommends that the Scottish Government examine how the funds available to support forestry can be spent to ensure best value for money and to meet the annual planting targets and provides an update to the Committee in due course.**

### **Equalities issues**

171. In July 2011, the Convener of the Parliament's Equal Opportunities Committee (EOC) wrote to the RACCE Committee to ask it to submit a short report to the EOC, setting out what steps it took to include equalities considerations in its draft budget scrutiny and what its findings were.

172. Much of the funding provision within the RACCE Committee's remit is directly targeting rural communities where constituent households and businesses are differentiated by income, age structure (of those entering and leaving rural industries) and proximity to services in rural areas. It is impossible to determine a net effect of these changes on all equal opportunity characteristics but some key interventions are noteworthy: specifically the Next Generation Digital Fund and Rural Cohesion spending are favourable in terms of inclusion.

173. Funding provision within the Minister for Environment and Climate Change's portfolio crosses over a wide range of spending lines and other Ministers' portfolios and it would be impossible to determine a comprehensive effect on all equal opportunity dimensions. The main areas where spend would have a direct impact would be for those on low income in relation to fuel poverty and energy efficiency schemes. In addition, it has been documented that the elimination of fuel poverty could prevent cases of mental illnesses such as anxiety and depression. Funding schemes such as the Energy Assistance Package and Home Insulation Scheme will therefore have a direct impact on equal opportunities.

174. There are clearly equity impacts in relation to the distributional impacts of policy by income groups. However, any quantitative comment would require some formal modelling to be completed. In the absence of formal empirical modelling, any conclusions would be qualitative speculation.

**EXTRACT FROM THE MINUTES FROM THE RURAL AFFAIRS, CLIMATE CHANGE AND ENVIRONMENT COMMITTEE**

**3rd Meeting, 2011 (Session 4), Wednesday 7 September 2011**

**Draft Budget Scrutiny 2012-13 (in private):** The Committee agreed to seek approval for the appointment of a budget adviser and to a draft remit and person specification for the post.

**5th Meeting, 2011 (Session 4), Wednesday 21 September 2011**

**Draft budget scrutiny 2012-13 (in private):** The Committee agreed, by Division, a ranked list of candidates for appointment as adviser to assist with its draft budget scrutiny 2012-13.

**7th Meeting, 2011 (Session 4), Wednesday 5 October 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011 from—

Richard Lochhead MSP, Cabinet Secretary for Rural Affairs and the Environment, Mike Neilson, DG Enterprise and Environment, and Jonathan Pryce, Director, Rural and Environment, Scottish Government.

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered the evidence heard during the meeting.

**Draft Budget Scrutiny 2011-12 (in private):** The Committee considered the evidence heard during the session.

**8th Meeting, 2011 (Session 3), Wednesday 26 October 2011**

**Draft Budget Scrutiny 2012-13 and Spending Review 2011:** The Committee took evidence on the Scottish Government's Draft Budget 2012-13 from—

Stewart Stevenson MSP, Minister for Environment and Climate Change, Scottish Government.

**Draft Budget Scrutiny 2012-13 and Spending Review 2011 (in private):** The Committee considered the evidence heard during the meeting.

**10th Meeting, 2011 (Session 4), Wednesday 9 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee considered a draft report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.

**11th Meeting, 2011 (Session 4), Wednesday 16 November 2011**

**Draft Budget 2012-13 and Spending Review 2011 Scrutiny (in private):** The Committee agreed its report to the Finance Committee on the Scottish Government's Draft Budget 2012-13 and Spending Review 2011.



The Scottish Parliament  
Pàrlamaid na h-Alba

## Scottish Commission for Public Audit

### Audit Scotland's Budget Proposal for 2012-13

The Commission reports to the Parliament as follows—

#### INTRODUCTION

1. Under section 11(9) of the Public Finance and Accountability (Scotland) Act 2000, Audit Scotland must prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit, which is to examine the proposals and report to the Parliament on them.

2. The Commission is pleased to report and hopes that it assists the Finance Committee in its wider scrutiny of the Scottish Government's Draft Budget 2012-13 and Spending Review 2011<sup>1</sup>.

3. Audit Scotland submitted its budget proposal for 2012-13 and fee strategy on 30 September 2011<sup>2</sup>. The Commission took oral evidence on the proposal at its meeting on 27 October 2011<sup>3</sup> from Robert Black, Auditor General for Scotland (AGS) (the Accountable Officer for Audit Scotland), Russell Frith, Assistant Auditor General and Diane McGiffen, Chief Operating Officer, Audit Scotland.

4. In addition, Audit Scotland submitted a written response<sup>4</sup> with additional information following that meeting on—

- its approach to business restructuring
- people costs
- operating costs

5. Audit Scotland states in the proposal that it is 'responding to the current economic conditions' and of the need, as highlighted in the Scottish Government's Draft Budget 2012-13 and Spending Review 2011, to reduce public sector expenditure over the next four years. Its approach to this, building on last year, is to reduce its budget through 'a number of planning and efficiency measures'. These include—

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<sup>1</sup> [www.scotland.gov.uk/Publications/2011/10/04153155/0](http://www.scotland.gov.uk/Publications/2011/10/04153155/0)

<sup>2</sup> [www.scottish.parliament.uk/2011\\_10\\_27\\_SCPA\\_Meeting\\_papers.pdf](http://www.scottish.parliament.uk/2011_10_27_SCPA_Meeting_papers.pdf)

<sup>3</sup> [Scottish Commission for Public Audit. \*Official Report, 27 October 2011\*](#)

<sup>4</sup> [Auditor General for Scotland. \*Correspondence to the Commission, 31 October 2011\*](#)

- continuing a targeted freeze on recruitment
- continuing an internal programme of review and efficiency savings
- continuing to restructure its business
- property rationalisation
- benefits from the tender exercise to appoint external audit firms

## COMMISSION CONSIDERATION

### The budget proposal

6. The budget proposal submitted aims to deliver on the following—

- audit fee reductions of 7.75%
- reduced revenue resource requirements of 4.2% from parliamentary funding
- running cost reduction of 6.2% from last year
- a second year of overall cost reduction and continuing to reduce the cost of audit by at least 20% in real terms over the next four years

7. Audit Scotland's budget requirement for 2012-13 is £24,599,000. Of this, it projects £18,066,000 coming from the fees (£18,036,000) charged to audited bodies and £30,000 from bank interest and miscellaneous income. That leaves a resource requirement from the Scottish Parliament of £6,973,000. Audit Scotland states that this is a 3.8% real terms reduction over the 2011-12 budget.

#### *Consideration of the budget proposal*

8. The Commission had previously taken oral evidence from Audit Scotland on 4 October 2011<sup>5</sup> when it considered Audit Scotland's annual report and audited accounts for 2010-11<sup>6</sup>. The report, and the evidence session, highlighted work which Audit Scotland is doing to streamline public sector scrutiny and push forward with improvements in performance and efficiency across public bodies and within Audit Scotland itself. The previous SCPA stressed<sup>7</sup> 'the ever increasing importance of rigorous independent audit of public funds at a time of budgetary restraint'. We do not depart from that point and would wish to emphasise it again in this report.

9. There has been continuity in the examination of issues by us in looking at what Audit Scotland has done over the previous year, how it has performed and how it was bringing about efficiencies which informed consideration of the budget proposal for 2012-13.

10. The Commission heard oral evidence from Audit Scotland on 27 October 2011<sup>8</sup>. The Commission was pleased to note the level of detail and information provided by Audit Scotland with the budget proposal and fee strategy which assisted in broadening understanding of the proposal. The Commission was pleased to note that

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<sup>5</sup> [Scottish Commission for Public Audit. Official Report, 4 October 2011](#)

<sup>6</sup> [www.scottish.parliament.uk/parliamentarybusiness/31058.aspx](http://www.scottish.parliament.uk/parliamentarybusiness/31058.aspx)

<sup>7</sup> Scottish Commission for Public Audit, 1st Report, 2010 (Session 3), Report on Audit Scotland's Budget Proposal for 2011-12 (<http://archive.scottish.parliament.uk/s3/committees/scpa/reports-10/scpar10-01.htm>)

<sup>8</sup> [Scottish Commission for Public Audit. Official Report, 27 October 2011](#)

the budget proposal submitted was scrutinised “in considerable detail”<sup>9</sup> by the non-executive members of the Audit Scotland board before it was submitted.

11. There were a number of issues which we pursued with Audit Scotland. These are touched on below.

### **Robustness of audit scrutiny**

12. The Commission recognised 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. We sought assurance from Audit Scotland that, given its ambitious, but welcome, savings targets that the quality and robustness of audit scrutiny of public bodies would not be reduced.

13. In oral evidence, the Auditor General for Scotland gave an “absolute assurance”<sup>10</sup> that this would not be the case. The Commission recognised the long term planning and careful approach taken. Audit Scotland stated that the benefits of this were now being seen. For example, the benefits of introducing suitable IT packages which allowed for more e-working by staff to be undertaken.

14. We pursued with Audit Scotland the point that it has identified a further £1.2 million of savings from the fees paid to external firms who deliver, under contract, audit work. We were interested in how Audit Scotland monitors the work of such firms and ensures that the quality of the audits conducted is of the required and expected standard.

15. Audit Scotland stated that all firms are required to follow international standards, some of which relate specifically to quality and the systems which must be in place to ensure such quality and any post-audit review. It believes it has—

“pretty robust arrangements in place to ensure that the firms are producing the quality of work that we would expect, both in a technical sense through the inspections and cold review, and in the sense of getting everybody together to get common understanding and consistency”.

16. This appears a sound approach.

17. We asked Audit Scotland about the point made in its budget proposal (page 3) that—

‘Working with other audit and inspection partners we have reduced the time spent in councils on corporate scrutiny work by 39% while continuing to ensure that areas of concern are highlighted through our Best Value audit work’.

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<sup>9</sup> [Scottish Commission for Public Audit. Official Report, 27 October 2011](#)

<sup>10</sup> [Scottish Commission for Public Audit. Official Report, 27 October 2011](#)

18. We were assured that this was not a reduction in the time spent on audit scrutiny but was achieved through the use of self-assessment by the audited body, reducing duplication, sharing information and other efficiency measures<sup>11</sup>.

### **Pay and staff**

19. This was an issue which the Commission pursued with Audit Scotland during oral evidence on the annual report and accounts<sup>12</sup>. We sought further clarification during oral evidence on the budget proposal<sup>13</sup>.

20. The budget proposal (page 13) provides information about the projected staff reductions to 2014-15, which includes a reduction of five whole time equivalent members of staff in 2012-13. Audit Scotland states that –

‘Reduced staff numbers and costs over the three year period are key to delivering real savings. Over the three year period we are projecting a reduction of 25 w.t.e. representing 9.1% of the staffing establishment in 2011/12.’

21. Further—

‘The achievement of the above staff reductions is a key component in the delivery of our reduced cost profiles. The process to reduce staff numbers started in the current year – our 2011/12 budget included staffing reductions of 16 w.t.e. and we are on target to deliver these. As noted in the 2012/13 budget submission we anticipate our proposed staff reductions in 2012/13 can be delivered through natural turnover. This is not likely to be the case for 2013/14 and some form of early exit package is envisaged along the lines of the VERA scheme we introduced in 2010/11. A provision of £300k has been included in the 2012/13 to support business restructuring in advance of 2012/13. Projections for 2013/14 and 2014/15 include restructuring of £150k.’

22. The Commission pursued with Audit Scotland the mix of posts involved in this reduction and how it would know whether it would meet its target. We welcome the clarification given by it in the follow up letter it submitted on 31 October 2011<sup>14</sup>.

### **Fee strategy**

23. The final issue we pursued with Audit Scotland was on the fee strategy included with the budget proposal. As indicated above, income from fees in 2012-13 is projected to be £18,036,000. As also indicated above, Audit Scotland has brought about reductions in the fees charged for conducting audits and will continue with the process to 2014-15. Audit Scotland states in the fee strategy (page 2) that—

‘is able to achieve this reduction, without compromising on the quality of our work as a result of reviewing the way in which we carry out audits and from

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<sup>11</sup> [Scottish Commission for Public Audit. Official Report, 27 October 2011](#)

<sup>12</sup> [Scottish Commission for Public Audit. Official Report, 4 October 2011](#)

<sup>13</sup> [Scottish Commission for Public Audit. Official Report, 27 October 2011](#)

<sup>14</sup> [Auditor General for Scotland, Correspondence to the Commission, 31 October 2011](#)

the investments in new technology and ways of working that we have made over the last few years and continue to make.'

24. Page 10 of the fee strategy<sup>15</sup> states that—

'the fee for the financial audit element of audit work to be undertaken at each body (is) based largely on historical experience' but the 'costs of firms and of in-house audit teams are pooled and shared between all audits across all sectors'. Auditors do have 'discretion to agree fees within a range of + or – 10%'.

25. We sought clarification from Audit Scotland on whether the fees set are dependent on the size, complexity or apparent risks of the organisation concerned. Further, what are the incentives for audit bodies to enhance their internal control arrangements and is there any scope to reduce audit input and therefore audit fees by more than 10% if audit bodies regularly demonstrate that they are performing well with few or no audit matters arising from annual audit work.

26. The Commission welcomes the clarification given by Audit Scotland in its oral evidence.

#### CONCLUSIONS AND RECOMMENDATION

**27. The Commission is satisfied at the detail and information provided by Audit Scotland, both in the budget proposal document and in oral evidence.**

**28. The Commission again stresses the importance of maintaining a high quality, independent audit function and this is an area which it will continue to monitor closely in the future.**

**29. The Commission recommends that Audit Scotland's request for a total resource requirement of £6,973,000 for 2012-13, to be provided from the Scottish Consolidated Fund, be approved by the Parliament.**

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<sup>15</sup> [www.scottish.parliament.uk/2011\\_10\\_27\\_SCPA\\_Meeting\\_papers.pdf](http://www.scottish.parliament.uk/2011_10_27_SCPA_Meeting_papers.pdf)



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