PASS

Procurement Advice & Support Service

...the Mark of Excellence

GUIDANCE **03**-2010

Scotland's public finances:

preparing for the future

Summary

The public sector is coming under the greatest financial pressure since devolution.

Key messages

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government has strengthened its financial management. But more could still be done to evaluate how well money is being spent in delivering against government priorities and improving public services.
- The Scottish Government's annual budget is largely developed on an incremental basis, which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews would support the Scottish Parliament in fulfilling this role.

Introduction

1. Since mid-2008, Scotland's economy has been in recession. The full effects of the recession are not yet known but it is clear there will be major implications for the public sector.

2. The Scottish Government's overall purpose is to promote and sustain economic growth and it has five strategic objectives: a healthier; wealthier and fairer; smarter; greener; and safer and stronger Scotland. In 2007, the Scottish Government introduced a new National Performance Framework (NPF), which sets out a number of performance targets for the public sector to work towards in the form of 15 national outcomes and 45 national indicators and targets (Exhibit 1).[1]

3. In 2007, the Scottish Government and local government agreed a concordat which gave councils more local flexibility in the way they spend the money received from the Scottish Government. This was achieved largely through the removal of a substantial number of ring-fenced funding streams. As part of the concordat, the Scottish Government and local government have jointly agreed the development of 32 Single Outcome Agreements (SOAs). The SOAs provide a framework by which councils and their partners, through Community Planning Partnerships, establish a set of local outcomes. The aim is that these local outcomes should be based on the Scottish Government's national outcomes while taking account of local priorities.

4. The public sector reports progress against the national outcomes through a new performance reporting system known as Scotland Performs.[2] Councils, through Community Planning Partnerships, are responsible for local reporting on progress against the related local outcomes.

5. In 2009/10, the Scottish budget is £34.7 billion. Annual spending plans are set out in the budget, which is scrutinised and subject to approval by the Scottish Parliament. Around 85 per cent (£29.6 billion) of the budget is allocated to public bodies to deliver public services, with the remaining 15 per cent (£5.1 billion) administered directly by the Scottish Government.

6. The Scottish budget has increased each year since devolution, from £17 billion in 2000/01, with average real term increases of just over five per cent (Exhibit 2).

7. The Institute for Fiscal Studies (IFS) predicts that real term reductions across all UK Government Departmental Expenditure Limits (DEL) will be around 2.3 per cent each year between 2011 and 2014.[3] It is also predicting that real term growth will continue to be constrained during 2014 to 2018.[4] At this stage, it is unclear what the actual reduction in budgets will be. This will depend on the depth of the recession and the length of time the economy takes to recover. It also depends on UK Government policy on reducing debt levels.

8. This squeeze will have a significant impact on the amount of money available to the public sector in Scotland, because Scotland receives most of its funding from the UK Parliament. In turn, the voluntary sector and private sector organisations that rely on public sector funding will also be affected.

9. By 2013/14, the Scottish budget could be between seven and 13 per cent lower in real terms.[5] Reductions of this size will present a significant challenge for the Scottish public sector in sustaining and improving services.

10. There is generally limited room for manoeuvre in adjusting the budgets in the public sector, at least in the short term. This is because most of the costs are fixed – such as the costs of salaries and pensions, running costs of buildings, costs of capital and essential supplies. In addition, the ageing population and the effects of the recession are likely to increase the demand for some services. The Scottish Government expects that by 2011, the Efficient Government Programme for the public sector will generate a total of £1.6 billion of cash-releasing savings, based on two per cent of 2007/08 expenditure levels. Given the high proportion of fixed cost in most budgets, it is not clear whether the public sector can continue to deliver two per cent efficiency savings on a cumulative basis beyond 2011, without a fundamental shift in how services are delivered.

11. The Scottish Government has prepared a carbon budget alongside the 2010/11 draft budget, which provides an assessment of the overall carbon impact of the government's proposed expenditure.[6] This assessment looks only at the emissions associated with buying goods and services – it is anticipated that future assessments will look at wider emissions. This is the first step in the process of developing a carbon accounting system, which will be critical in informing future spending decisions while ensuring that Scotland meets the targets in the Climate Change (Scotland) Act 2009.

12. In addition, the Carbon Reduction Commitment (CRC), which is central to the UK Government's strategy for improving energy efficiency and reducing carbon dioxide emissions, will come into force in 2010. The CRC is an emissions trading scheme, which provides financial incentives to reduce carbon emissions by putting a price on them. The scheme will cover large public and private sector organisations, which will need to buy allowances equal to their annual emissions. Failure to comply with the key obligations of the scheme will lead to financial penalties.

13. In June 2009, the Finance Committee of the Scottish Parliament published two reports that are of significance in responding to the recession. The first of these was a review of the budget process. The Finance Committee commented that Scotland's budget model has improved since devolution and compares well with other countries. However, it also highlighted a number of areas for improvement to support robust budget scrutiny. These include the need for:

- Parliament to complete a strategic scrutiny review of the budget once in each parliamentary session
- improved information to align budget information with performance monitoring information
- improved advice and research for the Parliament that is independent of government.[7]

14. The second report looked at the future for Scottish Government spending. This report considered the impact of the recession on the Scottish public sector budget for 2010/11 and beyond; the pressures and demands in the context of UK public finances; and the likely implications and challenges for the Scottish Government's budget over the longer term. The report made a number of recommendations including the need to connect budget priorities with growing the economy, improving the evaluation of individual programmes, and providing better links between policy priorities and budgetary choices.[8]

Preparing for the future

15. *Scotland's public finances: preparing for the future* contains an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The report also looks at the Scottish Government's financial management arrangements. It suggests some key questions for the Scottish Government, the Parliament and the wider public sector to consider when planning the delivery of public services in a time of severe resource constraints.

16. There is a recognition across Scotland that there are serious financial challenges ahead. This is clearly seen, for example, in the Finance Committee's two reports.

17. There are some key questions that need to be addressed in planning for the financial challenges that lie ahead. The aim of this report is to help to inform the debate on the future of public finances in Scotland.

Key questions for the Scottish public sector:

- How are decisions made between competing priorities within the National Performance Framework when resources are limited? What will success look like in relation to service delivery on the ground?
- Is there sufficiently good information on the cost, quality and quantity of services to support evidence-based priority setting?
- What needs to be done to improve understanding of the links between spending, activities, performance and outcomes?
- What contribution beyond the existing two per cent efficiency savings can be reasonably expected? What more could be done to improve understanding of productivity in public services as a basis for further action?
- Are there areas where spending is needed now to deliver significant recurrent savings in the longer term?
- Is the balance right between short-term measures and long-term changes?
- Is enough being done across sector and service boundaries to deliver efficient services that place the needs of users first?
- Are there barriers to delivering joined-up and efficient services (for example, organisational structures) that should be addressed, or can partnerships and shared service arrangements be relied on?
- Are partnerships able to use budgets, staff and buildings in a flexible way? Can they empower staff to act while at the same time maintaining clear and robust accountability for use of resources and performance?
- Is the work that goes into partnerships delivering clear improvements in the accessibility, quality and efficiency of public services? What support do partnerships need to make any necessary changes?
- Is the current capital investment programme sustainable in the current economic climate? And what are the priorities?
- What are the implications of an ageing workforce for the staffing of front-line services such as education, health, social work, police and fire services?
- Does the public sector have a sufficiently flexible workforce to allow jobs to be changed? Is there a need for skills development and an improved understanding with the unions and staff about the needs and opportunities for redesigning how services are provided?

Part 1. The current public spending environment

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

Key messages

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- 2% efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

The recession is having a significant impact on the UK economy

18. The UK economy is currently in recession and has been since the last quarter of 2008 – the first time since 1991. In response to the recession, the UK Government increased borrowing, from £88 billion in 2008/09 to £175 billion in 2009/10, to allow it to increase public spending to support the economy. However, it plans to reduce this level of borrowing to £173 billion in 2010/11 and £140 billion in 2011/12 if the economy recovers in line with its forecasts (Exhibit 3).[9]

19. This level of borrowing means that debt interest payments will increase, reducing the amount of funding available for public services. Over time, the UK Government will need to reduce public spending, increase taxes or apply a combination of both measures to reduce the national debt.

20. The UK has experienced the worst deterioration in its public sector finances of all OECD countries.[10] In the 2009 UK budget, HM Treasury estimated that the UK's ability to produce goods and services in the long-run has fallen five per cent. This affects the UK Government's ability to raise taxes and therefore reduce debt.[11] The IFS estimates that it could take over a decade to reduce the UK national debt as a share of GDP to 50 per cent (to the 2008/09 level).[12]

21. The impact of the recession on public sector spending is likely to be significant. At UK level, real term reductions of 2.3 per cent each year are projected for Departmental Expenditure Limit (DEL) budgets between 2011 and 2014. Current forecasts are that any real term growth in public spending over the next two spending review periods (2011 to 2018) will continue to be constrained and will not return to the levels seen over the last decade.[13]

22. The UK Government announced in its April 2009 budget that capital budgets would fall from 3.1 per cent of GDP in 2009/10 to 1.3 per cent in 2013/14.[14] This will significantly reduce spending on capital projects. Proceeds from the sale of land, property and other assets also contribute to capital budgets, but in the current economic climate proceeds are falling and it is unlikely that they will be sufficient to cover the shortfall.

The Scottish public sector is facing the biggest squeeze on budgets since devolution

23. The Scottish Government's original spending plans, published as part of the 2007 Spending Review, forecast increases in DEL over the period 2008/09 to 2010/11 of 4.4, 4.5 and 3.7 per cent (cash terms) respectively.[15]

24. In 2008/09, in response to the recession, the Scottish Government increased capital spending with the aim of boosting the economy by bringing forward £347 million of capital spending to 2008/09 and 2009/10 from 2010/11. Latest forecasts for the Scottish Government's DEL budget show a real term increase of 4.7 per cent in 2009/10 followed by a real term reduction of 1.6 per cent in 2010/11.[16] The current financial year – 2009/10 – will be the peak year for public spending for some time to come.

25. Beyond 2010/11, the full impact of the current economic recession is unclear. The Centre for Public Policy for Regions (CPPR) published data suggesting three different scenarios for the three-year period 2011/12 to 2013/14, from the best case through to the worst case projection. This shows real term reductions in the Scottish budget of between seven per cent (£2.1 billion) and 13 per cent (£3.8 billion) in 2013/14, compared to 2009/10 (Exhibit 4).[17] Over the medium term, further real term reductions are forecast, but it is not yet clear what impact this will have on the different parts of the Scottish budget because it is set as part of the UK Spending Review. Experts have suggested various scenarios for public finances in the UK and Scotland. The size of the budget reductions will depend on the depth of the recession and the length of time the economy takes to recover. It also depends on UK Government policy on reducing debt levels.

26. The Scottish Government has implemented an economic recovery programme to support the economy through this period of decline. The programme focuses on five strategic priorities that the Scottish Government believes are essential for economic growth – infrastructure and place; learning, skills and wellbeing; a supportive business environment; effective government; and equity.[18]

Other public sector income is likely to be less than previously forecast

27. The public sector receives non-government income from a variety of sources, which is proportionately small, but is used to help fund spending across a number of areas. Sources of income include non-domestic rates; proceeds from the sale of assets; housing regeneration income; and fees and charges.

28. The Scottish Government's budget includes income from non-domestic rate (NDR) charges made to businesses. The Scottish Government estimated that NDR income would be £2 billion in 2010/11. However, this level of income may not be achieved if some businesses cease to trade as a result of the recession. Although NDR income forms part of the funding package made to councils, it is the responsibility of the Scottish Government to address any shortfalls should income levels not be realised.

29. The Scottish Government and the Convention of Scottish Local Authorities (COSLA) agreed to freeze council tax as part of the concordat in June 2008. The Scottish Government has allocated £70 million to meet this cost annually over the period 2008/09 to 2010/11. If the policy continues, then councils will not be able to raise additional revenue from council tax.

30. The Scottish Government's budget includes other income estimated at £687 million over the period 2008/09 to 2010/11. Most of this income relates to the NHS, including capital from the sale of land and buildings of £141 million. The assumptions underpinning these estimates were developed before the current economic recession.

31. The Scottish Government now estimates that NHS capital income for the three-year spending review period will be around £21 million. This is £120 million less than originally anticipated. In 2009/10, NHS capital income was budgeted at £92 million, but due to the recession, this has been revised downwards to £5 million – a decrease of £87 million.[19] NHS boards use capital income to offset spending on capital projects. There is, therefore, a significant risk that there will be insufficient funding to deliver the NHS capital programme. This could result in projects being delayed or cancelled.

32. Housing regeneration income (£90 million) is also expected to be less than anticipated during 2008/09 to 2010/11. This income comes from a number of sources, including money from people buying their council houses or part-buying homes through shared equity schemes. With the downturn in the property market, fewer people are likely to buy property and this will reduce the income received.

33. Other bodies, such as Historic Scotland and Registers of Scotland, which charge directly for the services they provide, are seeing a reduction in income levels. Historic Scotland is experiencing a reduction in the amount of commercial income received.[20] Registers of Scotland is receiving much lower income from surveyors, solicitors and estate agents because of the decline in the property market. As a result, in 2008/09, Registers of Scotland incurred an operating deficit of around £11 million compared to a budgeted surplus of around £4 million.[21]

Scotland's funding arrangements may change in the future

34. Scotland is funded by a block grant from the UK Parliament largely determined using the population-based Barnett Formula. The formula, introduced in 1978, is a mechanism for providing Scotland with its share of any changes in comparable UK spending programmes in proportion with population levels. In 2007/08, the Barnett Formula accounted for around £49 billion of UK public spending.[22]

35. The continued use of the Barnett Formula in funding the devolved administrations (Scotland, Wales and Northern Ireland) is the subject of ongoing debate. A House of Lords inquiry into the operation of the formula concluded that it should no longer be used, as there was increasing concern about the fairness of the formula. If the formula were to be reviewed, this may have long-term implications for the size of Scotland's block grant.[23]

36. In 2008, the Scottish Parliament and the UK Government established the Commission on Scottish Devolution (the Calman Commission). The purpose of the Commission was to review the provisions of the Scotland Act 1998 and recommend any changes to the existing constitutional arrangements, including consideration of matters that would improve the financial accountability of the Scottish Parliament. Its report made a number of recommendations, including a partial move away from the current block grant arrangements and the introduction of borrowing powers for the Scottish Parliament. The Commission recommended that any changes be phased in over time.[24]

Increased demand will affect the affordability of public services

More older people will increase the demand for public services

37. Over the next 25 years there will be a significant change in the make-up of Scotland's population (Exhibit 5).[25] Forecasts show that over the period 2008 to 2033:

- the number of older people is projected to rise by 31 per cent from 1.02 million to 1.34 million, with a significant increase (84 per cent) in people aged 75 and over
- the number of people of working age is expected to increase by two per cent from 3.24 million to 3.31 million[26]
- the number of children under 16 is expected to fall by around one per cent from 910,000 to 900,000.

38. The rise in the number of older people, and specifically people aged 75 and over, will increase the demand for health and social care services. Case study 1 sets out some of the pressures being faced by health and social care services as a result of changing demographics. Fewer children under 16 may reduce the demand for education and children's services including the number of schools needed.

The effects of the recession may increase the demand for some public services

39. Scotland's unemployment rate for the quarter to August 2009 was 7.1 per cent, up 2.5 per cent on the previous year.[27] Increases in unemployment will result in more benefit payments along with possible rises in the number of housing repossessions and people seeking debt advice.

40. Higher levels of unemployment are likely to affect services, including health and social work. There may be increases in the level of drug and alcohol abuse, and in mental health problems such as depression and anxiety. Higher unemployment may also lead to an increase in crime levels and this may bring additional pressures on police, court and community justice services.[28] The longer and deeper the recession, the more likely it is that there will be increasing demands for social housing.

41. There are growing demands for further and higher education places which may be partly as a result of higher unemployment levels. Applications for further and higher education places have increased by 5.9 per cent to 35,892 in the 2009 academic year. The largest increase (14 per cent) is in the 25 years and over age group.[29] The Scottish Funding Council has provided additional investment of £28 million over 2009/10 and 2010/11 to fund around 3,100 extra full-time places in further education colleges.[30]

There are more free services and the costs of these will rise

42. The Scottish Government is committed to a number of universal public services, which are not paid for by users and where the costs are increasing. These services are demand led, making it difficult to estimate their future costs. Changes in Scotland's population will increase demand for these services, placing pressure on their long-term affordability.

43. Free personal and nursing care (FPNC) for older people was introduced in July 2002 through the Community Care and Health (Scotland) Act. In 2008, Audit Scotland highlighted a growing shortfall in Scottish Government funding for the policy, which was confirmed in the subsequent review by Lord Sutherland.[31] The Scottish Government has provided an additional grant of £40 million to councils for the two years to 2009/10.[32] The total cost of providing FPNC increased on average by 15 per cent each year between 2003/04 and 2006/07.[33] If this trend continues, projected costs for 2009/10 and 2010/11 will be around £489 million and £562 million respectively.

44. In December 2007, the Scottish Government announced that prescription charges would be phased out until fully abolished in April 2011. The estimated cost of this is £17 million, £24 million and £32 million, in the three years from 2008/09 to 2010/11. It is estimated that the cost of providing prescriptions free of charge will be £57 million in 2011/12.[34]

45. In April 2006, free eye examinations were introduced for everyone in Scotland. In 2006/07, the first year of the new policy, eye examinations increased by 53 per cent to 1.5 million with the number of examinations now approximately 1.6 million. The Scottish Government estimates that providing free eye examinations will cost £87.4 million in 2009/10 and £91 million in 2010/11.[35]

46. The concessionary fare travel scheme was introduced in April 2006 and provides free bus travel throughout Scotland for older and disabled people. The estimated cost is £187.4 million in 2009/10 rising to £189.4 million in 2010/11.[36]

There are ongoing cost pressures in the public sector

47. Many of Audit Scotland's recent reports have highlighted cost pressures in the NHS and local government (Case studies 2 and 3). These cost pressures are likely to continue into the next spending review period and beyond.

Public bodies will find it difficult to reduce their costs while maintaining front-line services

48. Salaries and pensions, goods and services and the running costs of buildings and equipment make up most of public sector costs. Capital costs also make up a significant element of public spending. Staff costs account for around 52 per cent of Scottish public sector expenditure (Exhibit 6). Without the flexibility to redeploy or reduce staffing levels or rationalise the assets used to deliver services, public bodies have limited discretion to reduce their costs while maintaining the levels of front-line services they provide.

Staff costs account for around half of public sector expenditure and are set to increase

49. The Scottish public sector is proportionately larger than in other parts of the UK and employs more people as a share of all jobs compared to elsewhere in the UK.[37] There are currently 579,600 public sector employees in Scotland – representing 23 per cent of total employment in Scotland.[38]

50. Salary, pension and related employer costs amount to £18.8 billion (around 52 per cent of public sector expenditure).[39] Salary costs will continue to increase in the period up to the next spending review because some public sector pay agreements were settled for three years and were based on higher inflation levels. Many of the pay deals have a number of years to run, with 2010/11 being the final year for several large public sector groups, including police and teachers. The Scottish Government agreed a three-year pay deal for NHS staff as part of the Agenda for Change, with pay increases of 2.75 per cent, 2.4 per cent and 2.25 per cent agreed for 2008/09 to 2010/11.[40] For local government employees, the pay settlement for 2008/09 and 2009/10 was three per cent and 2.5 per cent respectively. In addition, it is estimated that the rise in the rate of national insurance contribution costs will increase Scottish public sector pay costs by £30 million in 2010/11.[41]

51. There are six main public sector pension schemes in Scotland.[42] Employer contribution rates vary across the schemes, ranging from 13.5 per cent to 22 per cent. With the exception of the NHS Superannuation Scheme, employer contribution rates continue to rise. The pension schemes for police and fire-fighters do not currently have a set employer contribution rate but annual costs are based on pensions paid less employee contributions. The estimated 2009/10 employer contributions for Scottish teachers are £373 million and £559 million for NHS staff.[43] The most recent actuarial valuation of the Local Government Pension Scheme resulted in an increase in employer contribution rates for each of the three financial years from 2009/10 to 2011/12. We cannot currently establish employer contributions for police and fire-fighters' pensions but as at 31 March 2008, their unfunded liabilities were £6.3 billion and £1.7 billion respectively.[44]

52. Scottish ministers have given a commitment to no compulsory redundancies across the Scottish Government during the period of the current spending review (until March 2011). The commitment applies to permanent employees working in the Scottish Government, government agencies and non-departmental public bodies.[45]

Planned capital projects and ongoing capital costs account for around a fifth of Scottish public sector spending

53. The Scottish Government plans to spend around £7 billion on capital projects over 2009/10 and 2010/11.[46] In 2009/10, the level of spend is estimated to be £3.8 billion, representing ten per cent of total public sector spending. This will decrease to around £3.2 billion in 2010/11. This includes funding towards eight national developments, including the replacement Forth crossing (estimated total cost £1.7-£2.3 billion), and the Edinburgh trams project (£545 million).[47], [48] Past performance shows that the final cost of many major capital projects often exceeds initial estimates.[49]

54. Despite the planned level of capital investment, cost pressures remain across the public sector estate with at least £3.7 billion in backlog maintenance existing (Case study 4).

55. The public sector has a number of Private Finance Initiative (PFI) and Non Profit Distributing (NPD) commitments that are increasing in cost. Over the period 1997 to 2042, estimated payment commitments for PFI and NPD schemes will be £30 billion. The total payment in 2009/10 will be £723 million, rising to £820 million in 2010/11.[50] In addition, in 2008/09, the cost of using assets (capital charges) was £2.3 billion. It is estimated that capital charges will increase to around £2.5 billion in 2009/10. Together, PFI/NPD and capital charges account for around £3.2 billion each year (nine per cent of public sector expenditure).

Spending on goods and services accounts for over a quarter of Scottish public sector expenditure

56. Public sector bodies spend around £8 billion a year on goods and services such as medical and nursing supplies and social and community care services. Local government and health bodies are responsible for three-quarters of this spend. Spending by individual bodies varies significantly – with a third of bodies responsible for 92 per cent of spending.[51] In addition, around £2.3 billion is spent on payments to General Practitioners and other independent NHS contractors. In total, this is around 29 per cent of total Scottish public spending and it supports the delivery of all major public services in Scotland.

57. Savings of £327 million from better purchasing are broadly in line with the Scottish Government's target of £340 million up to 2007/08. In the current economic climate, even more emphasis on savings will be needed to reduce the costs of goods and services without affecting quality, especially as many of these goods and services are vital to delivering public services.

The Scottish public sector faces a significant challenge in balancing the cost of public services with a smaller budget

58. The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services. All of this needs to be done with less money, in real terms, in future years.

59. In April 2009, the CPPR published projections for the Scottish budget up to 2013/14, based on three scenarios (Exhibit 4). These scenarios project an overall reduction in Scotland's budget by 2013/14 ranging from, £2.1 billion at best (seven per cent) to £3.8 billion at worst (13 per cent).

60. To determine how a reduction in the budget might affect public services we have used information in the latest Scottish Government budget to project spend to 2013/14 and compared this with CPPR's forecasts for future budget levels. This analysis highlights a gap between budget and spend between 2010/11 and 2013/14, should spending continue at its current level. Comparing spending forecasts to CPPR's best case scenario highlights a gap of around £1.2 billion, but this could be as much as £2.9 billion if CPPR's worst case scenario is realised (Exhibit 7).

61. The Scottish Government has committed to making two per cent annual cash-releasing efficiency savings by the end of 2010/11, which should release around £1.6 billion. It has not yet identified the level of efficiency savings it will require beyond 2011. However, two per cent annual efficiency savings will not be enough to bridge the gap – a more fundamental approach is needed and there is an urgent need to improve the efficiency and productivity of Scotland's public services.

Case study 1

Demographic pressures on health and social care services

Projections for the changes in Scotland's population highlight a growing older population. This will lead to further pressure on the acute and primary health sectors and social care services:

- While people are living longer the additional years are not necessarily spent in good health. Life expectancy in Scotland has continued to increase, as has healthy life expectancy although this is at a much slower pace.
- Older people account for 40.5 per cent of all emergency admissions to hospital. In addition, the rate per 100,000 population of people aged 65 and over with two or more emergency admissions within one year has risen from 4,200 in 1998/99 to almost 5,000 in 2007/08.
- Older people tend to have more long-term conditions such as dementia, diabetes and chronic obstructive pulmonary disease. As life expectancy goes up then it is likely that a growing number of older people will suffer from one or more long-term condition.
- People with long-term conditions account for 80 per cent of all GP consultations and 60 per cent of hospital bed days. They are also twice as likely to be admitted to hospital compared to people without long-term conditions. As people live longer and have more long-term health problems, pressure on primary care and hospital services will rise.
- Demand for free personal and nursing care and other social care services such as care at home will continue to grow.

Source: Audit Scotland reports: *A review of free personal and nursing care* (2008), *Overview of Scotland's health and NHS performance 2006/07* (2007), *Managing long-term conditions* (2007), *Overview of the performance of the NHS in Scotland 2004/05* (2005), *Commissioning community care services for older people* (2004).

27 *Labour market statistics*, Office of National Statistics, October 2009.

28 *What should be done about rising unemployment in the UK*, David NF Bell and David G Blanchflower, Institute for the Study of Labor.

29 Media release, UCAS, July 2009.

30 Press release, Scottish Funding Council, June 2009.

31 *A review of free personal and nursing care,* Audit Scotland, January 2008. *An Independent Review of Free Personal and Nursing Care,* Lord Sutherland, April 2008.

Case study 2

Cost pressures in the NHS

- Recent pay agreements and associated pension costs have added significantly to the total NHS pay bill. The cost of NHS salaries (excluding those associated with independent contractors such as GPs, dentists, pharmacists and opticians) has risen in cash terms from just under £3 billion in 2003/04 to around £5 billion in 2008/09.
- Between 1996/97 and 2008/09, drugs prescribing costs more than doubled in cash terms to just over £1.1 billion. The rate of increase in these costs has reduced but they remain significant.
- Hospital energy costs increased by nearly 75 per cent between 2004/05 and 2007/08, increasing from £41 million to £71 million.
- Existing PFI commitments amount to around £120 million a year and are committed well into the future.
- Pressure will continue to be placed on the health service by levels of ill health in Scotland, and, in particular, illness associated with deprivation, obesity and the misuse of drugs and alcohol.

Source: Audit Scotland

Case study 3

Cost pressures in local government

- The total local government pay bill is around £7 billion. Cost of living pay increases were three per cent and 2.5 per cent in 2008/09 and 2009/10 respectively.
- Equal pay and related legal costs accounted for £181 million in 2007/08 (£233 million in 2006/07 and £280 million in 2005/06). We estimate that

the cost of single status implementation adds between one and eight per cent to the overall pay bill.

- There have been increases in some operating costs such as energy use. Councils spent around £79 million on energy in 2004/05. The price of electricity and gas doubled between July 2004 and June 2008.
- National priorities such as reducing class sizes and introducing free school meals, and pressure on social housing and social care services will increase costs.
- In 2007/08, councils spent a total of £340 million on waste management. In order to meet national targets councils will have to spend an estimated £580 million per year by 2020.

Source: Audit Scotland

32 In his review of the FPNC policy, Lord Sutherland recommended additional funding of £40 million based on Audit Scotland's findings.

33 *Free Personal and Nursing Care, Scotland, 2006/07,* A National Statistics Publication for Scotland, Scottish Government, August 2008.

34 *Prescription Charges: Proposed Phased Abolition briefing,* Scottish Parliament Information Centre, February 2008.

35 *Draft Budget 2009/10,* Scottish Government, September 2008. This is the total budget for General Ophthalmic Services. Spending on free eye exams accounts for approximately 80 per cent of this total.

36 *Spending Review 2007,* Scottish Government, November 2007.

Case study 4

Cost pressures in the public sector estate

- Of 12,400 property assets owned by councils, 27 per cent are in poor or bad condition, 23 per cent are not sufficiently suitable for the services being delivered from them, and 14 per cent fail in both respects. The cost of maintenance backlog is £1.4 billion and £376 million of this is urgently required.
- The cost of bringing Scotland's roads up to standard is estimated at £1.7 billion and the estimated cost of backlog maintenance for road repairs is around £900 million for councils and £232 million for the Scottish Government.
- Based on the Scottish Government's criteria, interim targets for improving 300 schools by 2006 have been met. However, if progress continues at current rates it could take up to 20 years to remove all schools from poor or bad condition.
- Just over half (55 per cent) of the Scottish higher education estate is in a sound or new condition. However, the maintenance backlog was almost £0.7 billion in 2007 and continues to grow.
- Since 2002, the Scottish Prison Service has spent around £280 million on improving conditions in the prison estate. However, the number of prisoner places has remained largely unchanged. Plans to increase prison capacity by around 1,900 places may not be sufficient to accommodate projected prisoner numbers. By 2016/17, it is projected that prisoner numbers will rise by 20 per cent based on 2007.
- Almost a third of the NHS estate will need major upgrading soon. Information provided by 16 NHS bodies indicated that at least £512 million is required to address all outstanding estate maintenance issues over the coming years.
- An audit commissioned by sportscotland in 2006 found that the estimated cost of upgrading and maintaining Scotland's sports facilities (excluding routine maintenance) was around £110 million each year over the following 25 years.

Source: Audit Scotland reports: *Asset management in local government* (2009), *Maintaining Scotland's roads* (2004), *Improving the school estate* (2008), *Estate management in higher education* (2007), *Managing increasing prisoner numbers in Scotland* (2008), *Asset management in the NHS in Scotland* (2009), *A performance overview of sport in Scotland* (2008).

45 *Public Services Reform: Simplification and Improvement Update,* Scottish Government, May 2009.

46 *Draft Budget 2010/11,* The Scottish Government, September 2009.

47 Scottish Government news release, December 2008.

48 *Edinburgh Transport Projects Review,* Audit Scotland, June 2007. Funding is split between the Scottish Government (£500 million) and the City of Edinburgh Council (£45 million).

49 *Review of major capital projects,* Audit Scotland, June 2008.

50 *Draft Budget 2010/11,* The Scottish Government, September 2009.

Part 2. Financial management in the Scottish Government

The Scottish Government has strengthened its financial management, but it must continue to develop and improve the skills of staff to meet the challenges ahead.

Key messages

- The Scottish Government reduced its underspend to £31 million in 2008/09 (less than one per cent of the total budget) – the lowest since devolution.
- The Scottish Government has strengthened its financial management. But more could still be done to evaluate how well money is being spent in delivering against government priorities and improving public services.
- The Scottish Government needs to do more to continue developing and improving staff's financial management skills.

The Scottish Government distributes around £26.7 billion to over 200 public bodies each year

62. In 2009/10, the total Scottish budget is £34.7 billion.[52] Around 85 per cent (£29 billion) of the budget is known as Departmental Expenditure Limit (DEL) funding – the Scottish Government has responsibility for deciding how to spend this money. A further £5.6 billion is Annually Managed Expenditure (AME) which includes, for example, expenditure on student loans, housing support grants and NHS and teachers' pensions.

63. The Scottish Government distributes most of its budget (£26.6 billion) to over 200 public bodies to deliver public services. NHS bodies and councils receive the largest proportion of this money – around a third each. After distributing the bulk of the budget to public bodies, the Scottish Government is left with around 15 per cent, or £5.1 billion, to administer directly (Exhibit 8).

64. The Scottish Government Health Directorates (SGHD) allocate around 70 per cent of the annual health budget directly to NHS boards to enable them to provide acute and community healthcare services and to commission family health services. The remainder is used to fund special health boards; provide capital funding to NHS bodies; and pay for the central administration of the SGHD. The SGHD monitor how NHS boards spend their budgets through monthly financial returns, and monitor performance against local delivery plans agreed with the boards, and through 29 national performance targets.

65. The Scottish Government funds around 80 per cent of local authority expenditure. Council funding is made up of the General Revenue Grant (GRG), General Capital Grant (GCG), non-domestic rates and some specific grants. The remainder of councils' income is made up of council tax and other fees and charges. Councils submit financial returns to the Scottish Government outlining service expenditure and some activity, for example use of care home places. They also report on performance against their SOAs to both the Scottish Government and their local communities.

66. Partnership working aims to make best use of the resources available to all partners and can involve joint teams of staff; pooled or aligned budgets; shared office space and services; and joint workforce planning. Health boards and councils have increasingly been working together to plan, commission and deliver local services. Some formal structures are in place to support better joint working, including Community Planning Partnerships (CPPs) and Community Health Partnerships (CHPs).

Partnership working, both formal and informal, exists across other parts of the public sector including, for example, drug and alcohol partnerships, community justice authorities and community safety partnerships.

67. SOAs set out jointly agreed outcomes for local communities and progress against these outcomes should be reported locally and through the Scotland Performs reporting system. However, while many examples of partnerships and joint working exist across the Scottish public sector, there is insufficient evidence so far about their success in targeting resources at those most in need; whether they are making the most efficient use of joint resources; and the quality of services they provide. Audit Scotland will be undertaking reviews of CPPs and CHPs during 2010.

In 2008/09, the Scottish Government achieved its lowest underspend since devolution

68. The Scottish Government's DEL budget for 2008/09 was £27.975 billion. It spent £27.944 billion – an underspend of £31 million – the lowest since devolution (Exhibit 9). The largest underspends were in the Finance and Sustainable Growth; Education and Lifelong Learning; and Rural Affairs and the Environment portfolios.

The Scottish Government manages the budget through a range of measures

69. The Permanent Secretary at the Scottish Government is the Principal Accountable Officer and has responsibility for the proper use of public funds and for the economic, efficient and effective use of resources. Six Directors General are accountable officers for their own government directorates. Together, the Permanent Secretary, Directors General, Director of Finance and three non-executive board members form the Strategic Board of the Scottish Government (Exhibit 10).

Financial monitoring should include information on how well money is being used to deliver front-line services and achieve national outcomes

70. At the highest level, the Scottish Government has moved to a more corporate approach to budget management. The Strategic Board plays an important role in monitoring and challenging portfolio spend. It receives monthly finance reports from the Director of Finance that focus on forecast results for the year, together with an assessment of risks that may affect the annual results.

71. The Directors General challenge expenditure plans at both the Strategic Board and within their directorates. This challenge generally focuses on monitoring actual and projected spend against budget. While this is an important aspect of scrutiny, it does not address how well money is being used to deliver results. Further improvements in budget and performance monitoring information would enhance the Scottish Government's ability to monitor the activities and services and their contribution to national outcomes, and to report this performance to the Scottish Parliament.

Money is moved within and across portfolios to alleviate pressures

72. When budget pressures emerge during the course of the year, Directors General are expected to manage these within their portfolio budgets. Where this is not possible, the Strategic Board identifies any available money in other portfolios that can be moved to help alleviate pressures. For example, in bringing forward £100 million of capital spending for the Affordable Housing Investment Programme from 2010/11, the Scottish Government identified areas within the Health and Wellbeing portfolio (£26 million) and from across other portfolios (Education and Lifelong Learning, Justice, Local Government and Rural Affairs – £74 million) where money could be re-allocated to support the decision.

More money than is available is allocated to budgets, but there are risks to this approach

73. By the end of the financial year 2006/07, HM Treasury held £1.5 billion of unspent Scottish Government money which had built up over a number of years. Until 2006/07, underspends against the DEL budget could be carried forward to future years as End Year Flexibility (EYF). However, since 2007/08, any underspends are retained by the UK Government to be considered as part of the next spending review.

74. The Scottish Government's 2007 Spending Review allocated £224 million more than was actually available in its spending plans. In both 2008/09 and 2009/10, £100 million was allocated above the overall budget. A £24 million over-allocation was planned for 2010/11, but was increased to £100 million in the 2010/11 draft budget. The purpose of this is to reduce the amount retained by the UK Government at the end of the year. In doing this, the Scottish Government took into account previous experience of underspending and slippage in capital projects.

75. This practice has contributed to reducing the annual underspend to £31 million in 2008/09 but there are risks with this approach. It does not address the underlying causes of underspends – slippage in programme and project spend – and there is also a risk that any weaknesses in systems for estimating and controlling spending might continue. It will also be more difficult to operate this approach at a time when resources are severely constrained, leading to a greater risk of overspending by the end of the financial year. In order to reduce the future need to over-allocate resources, priority should be given to addressing the underlying causes of underspends while continuing to improve the monitoring and reporting process.

The Scottish Government must ensure it has the appropriate skills to meet the challenges ahead

76. In March 2008, the Sector Skills Council for Central Government reported that financial management was one of the top priorities for investment in learning and development across the Scottish Government.[53] In July 2008, HM Treasury recommended that the Scottish Government should develop the finance capacity and capability of staff through the Professional Skills for Government (PSG) framework.

77. The PSG framework is designed to provide civil servants with the skills they need for the future, including financial management skills. Other reviews have also highlighted the need to strengthen the financial management skills and the status of the finance function in the Scottish Government and the then Scottish Executive.[54]

78. The Scottish Government has appointed a Director General with responsibility for finance and corporate services. Both the Director General and a professionally qualified Director of Finance sit on the Strategic Board. However, more remains to be done to ensure that the Scottish Government staff have the right financial and analytical skills to prepare for the financial challenges that lie ahead.

The Scottish Government has fewer professionally qualified finance staff than other comparable UK departments

79. Within the Scottish Government's finance directorate, 12 per cent of staff have a professional accountancy qualification with a further two per cent in training. While it is difficult to make like-for-like comparisons, this is slightly lower than the UK central government average of 14 per cent and considerably lower than the public sector average of 34 per cent.[55] When compared to UK departments managing large-scale budgets, the Scottish Government has significantly lower levels of financially qualified staff in its finance directorate. The UK Department for Children, Schools and Families and the Department for Communities and Local Government have 25 and 40 per cent respectively of financially qualified staff (Exhibit 11).[56, 57] The Scottish Government is currently carrying out a benchmarking exercise.

More work is needed to develop financial management skills across the Scottish Government

80. It is important that key staff outside the finance directorate receive the necessary training and support. Training on financial matters is available to all staff, but it is not a mandatory requirement. It is assumed that senior civil servants have adequate knowledge of financial matters in order to fulfill their roles as accountable officers. However, an Audit Scotland survey found some evidence that most other senior staff do not consider that they have received the financial training necessary to provide them with the skills and understanding to do their jobs effectively.[58]

Recommendations

The Scottish Government should improve its budget scrutiny by:

- ensuring that performance information is considered together with financial information when monitoring budgets
- continuing to address underlying causes of underspends
- addressing the low levels of financially qualified staff in its finance directorate
- prioritising financial management training for staff who have responsibility for budgets and policy development.

Part 3. Scrutinising, agreeing and monitoring the budget

In the current economic climate difficult decisions will have to be made about priority spending programmes.

Key messages

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Government and the wider public sector need to work together to develop better cost, activity and performance information. This is needed to support a budget process that allows informed choices to be made between competing priorities, and provides incentives for greater efficiency and productivity.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

The 2007 Spending Review took place in a complex environment

81. The Scottish budget is set as part of the UK Spending Review completed by HM Treasury. The Scottish Government's spending plans for 2008/09 to 2010/11 were determined as part of the Scottish Spending Review process which took place after the UK Spending Review in 2007. The spending plans allocate budgets to portfolios based on agreed policy decisions.

82. The 2007 Spending Review was undertaken in a complex environment, soon after the election of a new minority administration and after a later than normal UK Spending Review (Exhibit 12). The new Scottish Government introduced changes in its structure and accountability arrangements, including replacing departments with portfolios responsible for major spending programmes.

83. At the end of the spending review process, each portfolio was set an agreed three-year budget based on agreed policy decisions. Scottish ministers expected that these would not be renegotiated until the next spending review.

Linking budgets to priorities would provide better information for future spending reviews

84. The next spending review will set the Scottish Government's spending plans for three years from 2011/12 to 2013/14. The climate in which the spending review will take place will be very different to that of 2007 and changes are needed to the budget process.

85. In the current economic climate, difficult decisions will have to be made about priority spending programmes by both the Scottish Government and the wider public sector. In establishing its outcomes-based performance framework (the NPF), the Scottish Government has taken the first step in adopting a priority-based approach to budgeting. The Scottish Government is also developing impact assessments to analyse the effect of policies on objectives outlined in the NPF. The aim is to show how policies contribute to the Government's overall purpose of sustainable economic growth.[59] It is too early to comment on this work.

86. More work needs to be done to demonstrate a clear link between priorities, budgets and the performance of services. The Scottish Government should consider a number of questions before allocating money to each area of spend (Exhibit 13). Other public sector bodies should go through a similar process in managing their own budgets in the current financial climate.

87. To date, Scottish Government budgets have been largely determined on an incremental basis – taking last year's budget and adjusting for inflation and other known factors such as increasing demand for services. This approach assumes the current pattern of spending is broadly right and that activities will continue on the same basis. Some budgets for new policies or programmes are developed from a zero base. We reviewed a sample of budgets valued at £1.3 billion and found that overall they were developed on the basis of reasonable assumptions and analysis.[60]

88. An incremental approach to budgeting can work when financial resources are stable and change is gradual and planned. However, it does not help prioritise spend or reduce costs in a time of financial restraint. Nor does it provide adequate incentives to promote better ways of working or new ideas.

89. This has also been highlighted in a report by the Finance Committee's budget adviser who suggests a strategic review of public services to identify which services:

- the public sector can no longer afford to provide
- will have to be charged for
- can provide further efficiency savings.[61]

The Scottish Parliament has an important role in scrutinising Scottish Government spending plans

90. The Scottish Parliament authorises government expenditure through the Budget Act. In preparation for devolution, the Financial Issues Advisory Group (FIAG) developed proposals for a budget process which was intended to be as open and accessible as possible. The FIAG recommended that the budget process should allow for greater scrutiny and decision-making by the Scottish Parliament than is the case at Westminster.

91. The Scottish Parliament adopts a three-stage process for scrutinising spending plans.

- Stage one: The scrutiny of the Scottish Government's strategic spending plans and priorities happens in years where there is a UK Government spending review. Subject committees report to the Finance Committee on the relationship between spending plans and policy priorities and the Finance Committee subsequently reports to Parliament. In a recent review of the process, the Finance Committee recognised the importance of having a strategic budget scrutiny phase at least once in each parliamentary session, regardless of the timing of UK spending reviews.[62]
- Stage two: This occurs each year when the Parliament scrutinises draft spending plans for the following year. Again, subject committees report to the Finance Committee on detailed parts of the draft budget. The Finance Committee produces a report which is debated by Parliament before the Christmas recess.
- Stage three: Parliament approves the Budget Bill which outlines the Scottish Government's spending plans for the forthcoming year.

92. The Scottish Parliamentary process compares favourably to international best practice. But there are two areas where improvements could be made – improving information from the Government and ensuring that audit findings are systematically fed into the budget process.[63]

93. In September 2009, the Scottish Parliament announced it would pilot a new Financial Scrutiny Unit to increase the Parliament's capacity to analyse government spending proposals. The new unit reflects a recommendation by the Finance Committee, made in June 2009, to create a parliamentary budget office.

More transparency is needed to support Parliamentary scrutiny

94. Committees receive the draft budget proposals with financial information outlined for each policy or portfolio area and information on key spending priorities. The financial information provided in the draft budget is recorded at three different levels of detail:

- Level one expenditure is recorded at portfolio level, for example justice.
- Level two expenditure is recorded at sub-portfolio level, for example community justice services.
- Level three expenditure records expenditure in greater detail, for example offender services.

95. About two-thirds of the budget is allocated to local government and health boards. Although committees may request further information, the level three information does not inform Parliament about the levels of service being delivered by health boards and councils, and their contribution to the national outcomes.

Plans to raise the level at which Parliament approves the budget will increase flexibility, but there is a risk it may reduce transparency

96. Currently the Scottish Parliament approves the budget of the Scottish Government for each portfolio. The Scottish Government is currently proposing to introduce a single statutory budget limit by removing individual portfolio budget limits.[64]

97. The move to a single statutory budget limit for the Scottish administration would provide the Government with increased flexibility to manage spending across its portfolios. However, Parliament would no longer be approving the amount allocated to each portfolio, and at the end of the year, it might not be clear whether the actual expenditure in each portfolio has been in line with the amounts provided for in the supporting budget documents. It will be important to ensure that if there is a change to a single statutory budget limit, this does not result in less detailed information being available to support the Parliamentary scrutiny process.

Actual expenditure should be reported on the same basis as the supporting financial information in the approved budget

98. The Scottish Government reports to the Scottish Parliament on how much it has spent against the approved budget through its annual accounts. The FIAG recommended that the accounts should be presented in an accessible manner, be wide-ranging and cover performance as well as financial information.

99. The level at which figures are reported in the accounts is inconsistent with published budget documents. For example, in the Health and Wellbeing portfolio, budget documents divide health spending into a number of areas (for example, General Dental Services, Health Screening, Research Costs) whereas the financial statements report health spending as a single entry. This makes it more difficult for the Scottish Parliament to hold the Scottish Government to account, as it is not easy to identify if the money spent was in line with the activity areas and cost headings in the approved budget.

100. The Scottish Government publishes its annual accounts in October each year. This is around six months after the financial year end. By this time, the Parliament and its committees are concentrating mainly on scrutinising the following year's budget. This means that year-end results generally receive little attention or scrutiny other than the reported headline figures. The Parliament should consider whether the Public Audit Committee (PAC) should be asked to scrutinise the accounts of the Scottish Government and make a report on any significant matters arising from the audited accounts. The PAC report would, unavoidably, appear late in the budget process but it could highlight any significant matters for consideration before the budget bill is finally passed, and the report could be a source of information for the ensuing budget cycle.

There is not yet a comprehensive framework for reporting to Parliament on the accessibility, quality and costs of key public services

101. Financial outturn information linked to activity levels and performance information should be a major source of information to assist the Parliament in scrutinising future budget proposals but this does not happen systematically at present.

102. The Finance Committee noted that the alignment of financial and performance information would improve the information available to Parliament to support the scrutiny process.[65] It recommended that budgetary information be improved by further developing explicit links between expenditure and policy priorities. In January 2009, the Cabinet Secretary for Finance and Sustainable Growth made a commitment to the Finance Committee to do this.[66]

103. Without good information on the activity and performance of services, it is not possible to identify what difference the spending will make. Delivering many of the outcomes in the NPF will be long term and their achievement is dependent on the year-on-year delivery of services. The national indicators and targets need to be supported by good information on the cost, activity and performance of services (inputs, activities, outputs and outcomes). While the national outcomes provide important long-term goals, the needs of the Scottish people must be met by the continuing provision of high-quality services. For example, services for people with long-term health conditions such as chronic obstructive pulmonary disease (COPD) should contribute towards increasing healthy life expectancy in the most deprived areas. The impact of these services on health outcomes will only become evident in the longer term, and in the meantime, it is essential to know whether accessible, high-quality services are being delivered to people with an immediate need (Exhibit 14).[67]

A planned programme of reviews of policy areas and whole systems of service delivery could inform the budget scrutiny process

104. As part of the budget scrutiny process, the Scottish Parliament Finance Committee has recommended that the Scottish Government provides a list of all policy announcements made since the previous draft budget or budget revision which would incur expenditure above a predetermined threshold. This would allow the Finance Committee to consider whether to ask for further information on any of the policy announcements, thereby improving the effectiveness of Parliamentary scrutiny.

105. To support the improvement of financial scrutiny, the Finance Committee is also considering a number of options to improve the expert analysis and advice that is available to committees.

106. The level of Parliamentary scrutiny could be further enhanced through the introduction by the Parliament of a rolling programme of reviews of policy areas or systems of service delivery. These would be planned in advance jointly by the PAC and the Finance Committee, in consultation with the subject committees. Each review could be supported by input from the Scottish Parliament Information Centre, an expert team of advisers appointed for the duration of the review, and, where appropriate, Audit Scotland's work. The aim would be to review the performance of all major policy areas once in the lifetime of a Parliament, in order to provide detailed information to inform budget scrutiny and decision-making.

Recommendations

The Scottish Government should further support the Parliamentary budget scrutiny process by ensuring that:

- Parliament receives information which demonstrates clear links between the draft budget, Government priorities, and the performance of public services
- the introduction of a single statutory budget limit does not result in less detailed information to support the Parliamentary scrutiny process
- budget and financial outturn information are reported on a similar basis.

The Scottish Parliament should consider:

- inviting the PAC to take evidence on the audited accounts of the Scottish Government and make a report to the Finance Committee
- inviting the Finance Committee and the PAC to plan and implement a rolling programme of performance reviews of systems of service delivery over the lifetime of a Parliament.

Appendix 1.
Glossary of terms

Term	Description
Accountable Officer	Someone who has personal responsibility for the correct use of public spending for which they are accountable and for the economic, efficient and effective use of all available resources. The Permanent Secretary is the Principal Accountable Officer for the Scottish Government, with each Director General acting as accountable officer for their own directorates.
Actuarial valuation	This is an assessment done by an actuary, usually every three years. The actuary will workout how much money needs to be put into a pension scheme to make sure pensions can be paid in the future.
Annually Managed Expenditure (AME)	This is part of the Scottish budget which is outwith the Departmental Expenditure Limit. It accounts for approximately 15 per cent. AME is expenditure that is less predictable and therefore needs to be controlled on an annual basis. Examples of AME include student loans and NHS and teachers' pensions.
Concordat	The terms of relationship between the Scottish Government and local government. It is underpinned by the funding made available to local government until 2010/11.
Departmental Expenditure Limit (DEL)	The majority of the Scottish Government's budget that covers programme expenditure and running costs. DELs are divided into revenue and capital budgets. Overall, DELs account for approximately 85 per cent of the Scottish budget in 2009/10.
Efficiency savings	Delivering the same level and quality of service for less money (cash-releasing savings) or delivering more and higher quality services for the same amount of money (time-releasing savings).
End year flexibility	The money that remains unspent from departmental budgets at the end of the financial year. It was designed to deal with some of the problems arising from the annual focus of the budget process by providing a facility to carry forward unspent budgets.
Financial management	The management of the finances of an organisation in order to achieve financial objectives. There are three key elements to financial management: financial planning, financial control and financial decision-making.
Gross Domestic Product	This is a basic measurement of a country's economic performance. It is defined as the market value of all the goods and services produced by a country
National debt	This is all outstanding debt held by the UK Government.
Public sector net borrowing	This is how much the public sector owes to the private sector. It includes all financial borrowing including amounts borrowed for capital spending.
Real terms	Money that has been adjusted for the effects of inflation. This allows for a direct comparison of figures across a number of years.
Scottish budget	Also known as the 'assigned budget' or the 'Scottish block'. This is the total budget approved by the Scottish Parliament. It includes the budget for the Scottish Government as well as NHS and teachers' pensions, plus funding for the Scottish Parliament Corporate Body and other directly funded bodies including Audit Scotland.

Scottish Government budget	The Scottish Government budget includes budgets for all Scottish Government directorates, government agencies and non-departmental public bodies. It also includes central government funding for local government and NHS boards. The budget is approved by the Scottish Parliament.
Shared equity schemes	Schemes that allow individuals to own a majority share (approx 60 to 80 per cent) in a property. The remaining share is owned by a local housing association. At a later date, individuals have the option to increase their stake and own the property outright.
Single Outcome Agreements	Agreements between the Scottish Government and each council which set out how each will work in the future towards improving national outcomes for local people in a way that reflects local circumstances and priorities.
Unfunded pension schemes	An unfunded scheme uses contributions from present employees and employers to pay current scheme beneficiaries. This means today's employees will be paid their pensions from future contributions and future taxes, not invested funds.
Value for money (VFM)	The extent to which objectives are achieved in relation to cost. It is often used to describe the achievement of economy, efficiency and effectiveness.

Appendix 2.
The National Performance Framework

Strategic objectives				
Wealthier and fairer: Enable businesses and people to increase their wealth and more people to share fairly in that wealth.	**Safer and stronger:** Help local communities to flourish, becoming stronger, safer place to live, offering improved opportunities and a better quality of life.	**Smarter:** Expand opportunities for Scots to succeed from nurture through to lifelong learning ensuring higher and more widely shared achievements.	**Greener:** Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.	**Healthier:** Help people to sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to healthcare.

Purpose	
To focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth.	
Purpose targets (9)	
Economic Growth (GDP): • To raise the GDP growth rate to the UK level by 2011. • To match the GDP growth rate of the small independent EU countries by 2017.	Population: To match average European (EU15) population growth over the period from 2007 to 2017. Supported by increased healthy life expectancy in Scotland over the period from 2007 to 2017.
Productivity: To rank in the top quartile for productivity against our key trading partners in the OECD by 2017.	Solidarity: To increase overall income and the proportion of income earned by the three lowest income deciles as a group by 2017.
Participation: • To maintain our position on labour market participation as the top performing country in the UK. • To close the gap with the top five OECD economies by 2017.	Cohesion: To narrow the gap in participation between Scotland's best and worst performing regions by 2017.
	Sustainability: To reduce emissions over the period to 2011 and by 80 per cent by 2050.

National outcomes (15)		
We live in a Scotland that is the most attractive place for doing business in Europe.	We reduce the local and global environmental impact of our consumption and production.	We realise our full economic potential with more and better employment opportunities for our people.
We live in well-designed, sustainable places where we are able to access the amenities and services we need.	We are better educated, more skilled and more successful, renowned for our research and innovation.	Our children have the best start in life and are ready to succeed.
Our young people are successful learners, confident individuals, effective contributors and responsible citizens.	Our public services are high quality, continually improving, efficient and responsive to local people's needs.	We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
We take pride in a strong, fair and inclusive national identity.	We live longer, healthier lives.	We live our lives safe from crime, disorder and danger.
We have tackled the significant inequalities in Scottish society.	We value and enjoy our built and natural environment and protect it and enhance it for future generations.	We have improved the life chances for children, young people and families at risk.

National indicators and targets (45)				
Increase the percentage of Scottish domiciled graduates from Scottish Higher Education Institutions in positive destinations.	Achieve annual milestones for reducing inpatient or day case waiting times culminating in the delivery of an 18-week referral-to-treatment time from December 2011.	Increase the proportion of school leavers (from Scottish publicly funded schools) in positive and sustained destinations (FE, HE, employment or training).	Reduce the rate of increase in the proportion of children with their Body Mass Index outwith a healthy range by 2018.	Child protection inspection findings: increase the overall proportion of local authority areas receiving positive inspection reports.
Reduce proportion of people aged 65 and over admitted as emergency inpatients two or more times in one year.	Improve public sector efficiency through the generation of two per cent cash-releasing efficiency savings per annum.	50 per cent of electricity generated in Scotland to come from renewable sources by 2020 (interim target of 31 per cent by 2011).	At least halve the gap in total research and development spending compared with EU average by 2011.	All unintentionally homeless households will be entitled to settled accommodation by 2012.
Decrease the estimated number of problem drug users in Scotland by 2011.	60 per cent of schoolchildren in primary 1 will have no signs of dental disease by 2010.	Increase the proportion of journeys to work made by public or active transport.	Reduce the proportion of driver journeys delayed due to traffic congestion.	Reduce the percentage of the adult population who smoke to 22 per cent by 2010.
Increase the percentage of criminal cases dealt with within 26 weeks by three percentage points by 2011.	Increase the percentage of adults who rate their neighbourhood as a good place to live.	Increase to 95 per cent the proportion of protected nature sites in favourable condition.	Reduce number of working age people with severe literacy and numeracy problems.	Increase the average score of adults on the Warwick-Edinburgh Mental Wellbeing Scale by 2011.
Improve the quality of healthcare experience.	Increase the rate of new house building.	Increase the social economy turnover.	Increase the business start-up rate.	Reduce overall ecological footprint.
Decrease the proportion of individuals living in poverty.	Reduce the number of Scottish public bodies by 25 per cent by 2011.	Grow exports at a faster average rate than GDP.	Improve knowledge transfer from research activity in universities.	Reduce alcohol related hospital admissions by 2011.
Improve people's perceptions, attitudes and awareness of Scotland's reputation.	Biodiversity: increase the index of abundance of terrestrial breeding birds.	Reduce overall crime victimisation rates by two percentage points by 2011.	Improve the state of Scotland's historic buildings, monuments and environment.	Increase the proportion of schools receiving positive inspection reports.
Increase the proportion of adults making one or more visits to the outdoors per week.	Increase the percentage of people aged 65 and over with high levels of care needs who are cared for at home.	Ensure 70 per cent key commercial fish stocks at full reproductive capacity and harvested sustainably by 2015.	Reduce mortality from coronary heart disease among the under 75s in deprived areas.	Increase the proportion of pre-school centres receiving positive inspection reports.

Reduce overall reconviction rates by two percentage points by 2011.	Reduce to 1.32 million tonnes waste sent to landfill by 2010.	Increase healthy life expectancy at birth in the most deprived areas.	Improve people's perceptions of the quality of public services delivered.	Increase positive public perception of the general crime rate in local area.

Appendix 3.
The Scottish budget 2009/10

Area	Total £m	DEL1 £m	AME2 £m	Other £m
Office of the First Minister	265.1	265.1	–	–
Finance and Sustainable Growth	3,394.5	2,714.5	595.5	84.5
Health and Wellbeing	12,159.8	12,095.4	64.4	–
Education and Lifelong Learning	2,786.9	2,649.7	132.7	4.5
Justice	1,844.7	1,830.0	–	14.7
Rural Affairs and the Environment	545.9	545.8	–	0.1
Local Government	10,300.7	8,173.6	2,127.1	–
Administration	273.3	273.3	–	–
Crown Office and Procurator Fiscal Services	118.7	118.7	–	–
Total Scottish Government budget	31,689.6	28,666.1	2,919.7	103.8
General Registers of Scotland	15.7	15.7	–	–
National Archives of Scotland	10.3	10.3	–	–
Office of the Scottish Charity Regulator	3.7	3.7	–	–
NHS and Teachers' Pensions	2,689.9	–	2,689.9	–
Scottish Administration	34,409.2	28,695.8	5,609.6	103.8
Forestry Commission	93.8	93.8	–	–
Food Standards Agency	11.0	11.0	–	–
Scottish Parliamentary Corporate Body	103.5	103.5	–	–
Audit Scotland	7.3	7.3	–	–
Total Scottish block (pre UK budget)	34,624.8	28,911.4	5,609.6	103.8
UK Budget 2009 Consequential	79.0	79.0	–	–
Total Scottish block 2009/10	34,703.8	28,990.4	5,609.6	103.8

Notes:
1. Departmental Expenditure Limit
2. Annually Managed Expenditure

PASS

Procurement Advice & Support Service

...the Mark of Excellence

Expert public procurement consultancy for **Buyers** and **Suppliers** at **your service**

PASS CONSULTANCY

BiP's *Procurement Advice and Support Service (PASS)* provides organisations with access to experts in public procurement practices and procedures, thus helping you develop and deliver effective and efficient procurement. Our team offers a range of services to meet your specific needs. Whichever area you wish evaluated and improved, we have the experts to help.

The PASS consultancy's mission is to help you deliver the best in government procurement through:

- Practical solutions to improve procurement performance
- Innovative approaches to knowledge transfer within government
- Joined-up government
- Improved performance indicators
- Strategic direction and performance
- Opportunities offered by e-government
- Capacity to deliver change to meet identified needs
- Continuous improvement of services and challenging poor performance
- Sustainable development within decision-making processes and delivery of services
- EU-compliant processes
- Best practice procurement training

PASS MARK HEALTH CHECK

The *PASS* service can help your organisation examine its current procurement organisational structures, strategies, processes, practices and related strengths and weaknesses. It delivers a detailed *PASS Mark Health Check Outcome Highlight Report (OHR)* that outlines areas of strength as well as those requiring further attention, and provides an outline *Project Initiation Document (PID)* designed to deliver a more effective and efficient tendering process that will help you achieve optimum performance and better value-for-money procurement.

PASS – HELPING YOU MEET KEY OBJECTIVES

The key objective of public procurement professionals is to ensure that the most suitable supplier is selected to provide goods and services on terms which are likely to offer the best value for money. The *PASS* service helps you meet this requirement and deliver contracts that offer best value-for-money terms with suppliers who will execute them efficiently.

PASS TRAINING

Our consultants can provide you with bespoke training packages to suit your needs. Consultancy and training is available for the following: environmental purchasing, partnering, evaluation,e-government, supplier debriefing, UK legal processes and precedents, contract management, EU-compliant tendering and much more.

PASS ONLINE GUIDANCE

The *PASS* service provides online guidances on all aspects of the public procurement process and legal requirements: **www.bipsolutions.com/html/briefing.php**

PASS IN-HOUSE PRESENTATIONS

PASS consultancy can provide you with in-house presentations directed to buyer or supplier. Each presentation will be bespoke to your requirements, whether they be with regards to improving your tendering practices or your procurement strategy or processes. Contact: **pass@bipsolutions.com**

The *PASS Mark Health Check* is a process-based evaluation technique that helps identify how your company can develop more effective processes when tendering for public sector contracts.

For further information on the **PASS** service, contact our **PASS Team** on **0845 270 7055**, email **pass@bipsolutions.com** or visit **www.bipsolutions.com/pass**