

FINANCE COMMITTEE

AGENDA

12th Meeting, 2001 (Session 1)

Tuesday 22 May 2001

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Committee Business:** The Committee will consider whether to take agenda item 4 in private.
2. **2002/03 Budget Process:** The Committee will consider the Annual Expenditure Report of the Scottish Executive.
3. **External Research:** The Committee will consider a paper for submission to the Conveners Liaison Group on outcome based budgeting.
4. **Inquiry into Resource Accounting and Budgeting:** The Committee will consider a draft report.

Callum Thomson

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The papers for this meeting are:

Agenda item 2

Members are reminded to bring their copy of the AER

Paper by Professor Brian Ashcroft FI/01/12/1

Paper by Murray McVicar, SPICe researcher FI/01/12/2

Agenda item 3

Draft proposal for external research *Moving to Outcome Budgeting* FI/01/12/3

Agenda Item 4

Draft report on Resource Accounting and Budgeting PRIVATE PAPER

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**: A note on the Annual Expenditure Report published by the
Scottish Executive on 30th March 2001**

Professor Brian Ashcroft and Alex Christie

Annual Expenditure Report (2002-03)

Analysis of level 1 figures

The analysis of the figures given in tables 0.1 to 0.7 of 'The Scottish Budget' has to be carried out in nominal terms as only one table, 0.2, is given in real terms. This should not affect the outcome as if the nominal terms sum accurately the real figures should do the same. The analysis is carried out for financial year 2002-03, the year currently under consideration.

Table 0.1 gives Total Managed Expenditure (TME) in nominal terms for each of the spending headings – the level 1 figures. Each line should be the sum of Annually Managed Expenditure (AME), shown in Table 0.6, and Departmental Expenditure Limit (DEL), shown in Table 0.4 plus any other charges levied or rents receivable. The other tables, excluding Table 0.2, are there for illustration and the figures given will be contained in either AME or DEL.

Table 1a shows the level 1 figures given in this year's Annual Expenditure Report. Table 1b shows the corrected figures adjusted for typos and misallocations.

Adding AME and DEL and subtracting them from the TME figure given in Table 0.1 of the Annual Expenditure Report shown here in Table 1 shows the differences to be explained. The differences are explained below:

- It would appear that typographical errors have occurred in the Social Justice and Scottish Public Pensions Agency lines. By altering the AME totals that have been entered the differences drops to near zero. These changes have been made in Table 1a.
- It isn't clear which department has responsibility for Modernising Government Funds. The Executive has suggested the difference is due to an error and that the figure for AME should not have been included.
- By far the greatest difference is that in Central Government Support for Local Authorities and this difference is due to Non-Domestic Rate Income (NDRI). The figure given in the level 3 spending totals for NDRI for 2002-03 is £1,577m. Applying a crude deflator to this gives a real terms figure of £1,475m which still leaves a gap of nearly £50m. This is a large sum in absolute terms, but as a percentage of the total Aggregate External Finance the figure is less than one percent.

- The figures given for AME in the Transport and Sport and Culture lines have been incorrectly entered, as shown in Table 1a. By correcting this error in Table 1b the difference drops to near zero.

Table 1a

AER 2002-03

Level 1

	DEL	AME	Capital Charges	EYF	Capital Budget	DEL + AME	TME - (DEL+AME)	TME
Central Govt. Support for Local Authorities	5412.6	0		24	488	5412.6	1524	6937
Children and Central Govt. Education	337.3	0	3.1	7	40	337.3	-0.3	337
Community Care	8.5	0		0	2	8.5	0.5	9
Crown Office	58.1	1.5	1.5	5	1	59.6	0.4	60
Enterprise and Lifelong Learning	2101.1	99.3	49.3	73	267	2200.4	-0.4	2200
Environment	382.3	157	157	11	517	539.3	0.7	540
EU Structural Funds	198.5	0		4	74	198.5	-0.5	198
Food Standards Agency	5.1					5.1	-0.1	5
Forestry	34	50	50.1		3	84	0	84
Health	6298.5	263.6	263.6	135	290	6562.1	-0.1	6562
Justice	627.4	74.9	75	47	52	702.3	-0.3	702
Modernising Govt. Fund	16.1	13			16	29.1	-13	16
Rural Affairs	234	395.5	30.5	10	50	629.5	0.5	630
Scottish Executive Administration	202.9	11.3	19.8	11	13	214.2	-0.2	214
Scottish Executive Associated Depts.	17.9	5.8	6.9	2	5	23.7	0.3	24
Scottish Public Pensions Agency	5.1	12.7				17.8	261.2	279
Social Justice	755.1	273.6		57	424	1028.7	-260.7	768
Sport and Culture	147.4	544.6			27	692	-541	151
Transport	489.7	1.8	544.6	22	86	491.5	542.5	1034
Scottish Parliament & Audit Scotland	97.3	14.9	13.7	20	53	112.2	-0.2	112
DEL RESERVE	53	0			0	53	0	53
AME RESERVE	0	63.9			0	63.9	-0.9	63

Table 1b

AER 2002-03

Level 1

	DEL	AME	Capital Charges	EYF	Capital Budget	DEL + AME	TME - (DEL+AME)	TME	
Central Govt. Support for Local Authorities	5412.6	0			24	488	5412.6	1524	6937
Children and Central Govt. Education	337.3	0	3.1		7	40	337.3	-0.3	337
Community Care	8.5	0			0	2	8.5	0.5	9
Crown Office	58.1	1.5	1.5		5	1	59.6	0.4	60
Enterprise and Lifelong Learning	2101.1	99.3	49.3		73	267	2200.4	-0.4	2200
Environment	382.3	157	157		11	517	539.3	0.7	540
EU Structural Funds	198.5	0			4	74	198.5	-0.5	198
Food Standards Agency	5.1						5.1	-0.1	5
Forestry	34	50	50.1			3	84	0	84
Health	6298.5	263.6	263.6	135		290	6562.1	-0.1	6562
Justice	627.4	74.9	75	47		52	702.3	-0.3	702
Modernising Govt. Fund	16.1	13				16	29.1	-13	16
Rural Affairs	234	395.5	30.5	10		50	629.5	0.5	630
Scottish Executive Administration	202.9	11.3	19.8	11		13	214.2	-0.2	214
Scottish Executive Associated Depts.	17.9	5.8	6.9	2		5	23.7	0.3	24
Scottish Public Pensions Agency	5.1	273.6					278.7	0.3	279
Social Justice	755.1	12.7		57		424	767.8	0.2	768
Sport and Culture	147.4	1.8				27	149.2	1.8	151
Transport	489.7	544.6	544.6	22		86	1034.3	-0.3	1034
Scottish Parliament & Audit Scotland	97.3	14.9	13.7	20		53	112.2	-0.2	112
DEL RESERVE	53	0				0	53	0	53
AME RESERVE	0	63.9				0	63.9	-0.9	63

Analysis of level 2 figures

Absolute Change

This part of the paper attempts to follow the methodology used by Murray MacVicar in his analysis of the level 1 figures contained in 'The Scottish Budget.' This means that the figures being compared are those for the year currently under consideration (2002-03) and those for 2001-02. The figures used are in real terms with a 1999-2000 base year.

Due to the much larger number of figures at level 2 it is not practical to show the changes in each of the headings, instead main increases and decrease are given in Table 2.

Table 2

Main increases	Amount £ million
<i>Hospital, Community and Family Health Services</i> Health and Community Care	285.6
<i>Aggregate External Finance</i> Local Government	253.0
<i>Schools</i> Education and Children	24.0
<i>Children and Young People</i> Education and Children	18.0
<i>Other transport programmes</i> Transport	16.0
Main decreases	
<i>Student Awards Agency for Scotland</i> Enterprise and Lifelong Learning	-52.0
<i>Capital Expenditure</i> The Scottish Parliamentary Corporate Body	-29.8
<i>CAP Market Support</i> Rural Affairs	-17.0
<i>Scottish Enterprise</i> Enterprise and Lifelong Learning	-10.0
<i>Rail services in Scotland</i> Transport	-6.0

Percentage Change

As with Murray MacVicar's paper it is more meaningful to present an analysis of the percentage changes in spending for 2002-03 on 2001-02. Table 3 highlights the five greatest percentage increases and decreases.

Table 3

Main increases	% Change
<i>Homelessness</i> Social Justice	150.0
<i>Capital Charges</i> The Scottish Parliamentary Corporate Body	38.4
<i>Fuel Poverty</i> Social Justice	29.0
<i>Schools</i> Education and Children	22.9
<i>Police Central Government</i> Justice	18.4
Main decreases	
<i>Capital Expenditure</i> The Scottish Parliamentary Corporate Body	-38.0
<i>General Register Office for Scotland</i> Scottish Executive Administration and Associated Departments	-37.5
<i>Capital Expenditure</i> Food Standard Agency	-33.3
<i>Scottish Tourist Board</i> Enterprise and Lifelong Learning	-12.5
<i>Student Awards Agency for Scotland</i> Enterprise and Lifelong Learning	-11.1

The large increase in the Homelessness figure is due to the implementation of the recommendations of the Homelessness Task Force Recommendations. It is worth noting that a comparison of the top five increases and decreases in both absolute and percentage terms shows only two similarities: capital expenditure of the Scottish Parliamentary Corporate Body and funds for the Student Award Agency for Scotland.

Change by Share of Total Budget

Analysing the percentage change of each level 2 expenditure category by share of the total budget increase from 2001-02 to 2002-03 gives the figures in table 4. Again, for the sake of simplicity only the five largest increases and decreases are shown.

Table 4

Main increases	% change
<i>Hospital, Community and Family Health Services</i> Health and Community Care	43.3
<i>Aggregate External Finance</i> Local Government	38.3
<i>Schools</i> Education and Children	3.6
<i>Children and Young People</i> Education and Children	2.7
<i>Other transport programmes</i> Transport	2.4
Main decreases	
<i>Student Awards Agency for Scotland</i> Enterprise and Lifelong Learning	-7.9
<i>Capital Expenditure</i> The Scottish Parliamentary Corporate Body	-4.5
<i>CAP Market Support</i> Rural Affairs	-2.6
<i>Scottish Enterprise</i> Enterprise and Lifelong Learning	-1.5
<i>Rail services in Scotland</i> Transport	-0.9

The decrease for the Student Awards Agency for Scotland is accounted for by removing a £50m provision for bad debt that was included in the budget for 2001-02. Were this not to have been included in the budget for the previous year there would have been an increase in funding for 2002-03.

Comparison with 'Making a Difference'

The comparison Murray MacVicar undertook of level 1 spending in 'The Scottish Budget' with that in 'Making a Difference' gave a number of reasons why comparison was difficult, not least because of the recent change to using Resource Accounting and Budgeting. The same problems are encountered in analysing the comparison of level 2 figures with the added difficulty that 'Making a Difference' is a very different document to 'The Scottish Budget' and the former contains very little level 2 data. Comparison is therefore rather sketchy and the comparisons that are made should be taken as correct presuming their definitions have not drastically changed. Table 5 gives a list of the five largest increases and decreases.

Table 5

Main increases	% change
<i>Community Care</i> Health and Community Care	77.7
<i>Central government support to local authorities</i> European Structural Funds	19.6
<i>Caledonian MacBrayne</i> Transport	12.1
<i>Other</i> Enterprise and Lifelong Learning	11.6
<i>Children and Young People</i> Education and Children	9.7
Main decreases	
<i>Justice support to local authorities</i> Justice	-62.4
<i>Research and sustainable action</i> Environment	-39.4
<i>Schools</i> Education and Children	-29.1
<i>Fisheries</i> Rural Affairs	-14.1
<i>Central government spending</i> European Structural Funds	-9.7

The increase in Community Care spending is due to the large increase for the Scottish Commission for the Regulation of Care and the Scottish Social Services Council. The Other figure within the ELL budget is rather feeble as there can be no guarantee that both documents take Other to be the same thing.

SCOTTISH PUBLIC PENSIONS AGENCY

ORGANISATION

The Scottish Public Pensions Agency (SPPA) is an executive (or 'next steps') agency of the Scottish Executive. It was established in 1993, originally as the Scottish Office Pensions Agency. It is not a NDPB (or quango). Formerly part of the Scottish Executive Education Department, it now reports to Angus MacKay MSP, Minister for Finance and Local Government.

WHAT DOES IT DO?

The SPPA's main role is to administer the **NHS** and **teachers'** pensions schemes in Scotland. It also facilitates and provides advice and information on pensions etc. for the following organisations:

- Scottish Legal Aid Board
- Scottish Enterprise and Highlands and Islands Enterprise
- Scottish Parliament pension scheme (for Members)
- Local Government, Police and Fire schemes
- Scottish Agricultural Colleges

The SPPA is also responsible for advising Ministers and Departments of the Scottish Executive on occupational pensions policy generally.

LEVELS OF FUNDING

The SPPA collects contributions from, and pays benefits to, teachers and NHS staff. This funds the bulk of the payments to former staff. The balance of the benefit payments is funded by a hypothecated ring-fenced grant to the Scottish Executive, as part of Annually Managed Expenditure (AME). It is **this** amount (together with the administration costs of SPPA) that forms the line in the budget documents.

Scottish Public Pensions Agency Budget (1999-00 prices) ¹

	2000-1	2001-02	2002-03	2003-04
SPPA budget (£m)	292	268	261	301
SPPA budget as a % of total Scottish budget	1.65	1.41	1.33	1.49

¹ Scottish Executive (2001) *The Scottish Budget: Annual Expenditure Report of the Scottish Executive*. Table 0.2, p.8

As can be seen from the above table, the planned level of funding, as indicated in this year's Annual Expenditure Report, *The Scottish Budget*, will fall in 2001-02 and 2002-03, but is planned to increase in 2003-04. Such fluctuations are common. The falls in 2001-02 and 2002-03 are due to planned increases in income from employer contributions.

Murray McVicar
SPICe
21 May 2001

FINANCE COMMITTEE

PROPOSAL FOR EXTERNAL RESEARCH

Introduction

The next round of external research will shortly be commissioned by SPICe for the Parliament's committees. It is expected that the Conveners' Liaison Group will discuss the research proposals at its meeting on 5 June. The deadline for submissions is Thursday 24 May. The following is a draft proposal for the Finance Committee to consider, based largely on issues raised in previous Committee meetings.

Title of Research Proposal

Moving to Outcome Budgeting

Background to the proposed research and its importance in the Committee's workplan

One of the key innovations recommended by the Financial Issues Advisory Group (and endorsed by CSG) is the importance of Parliamentary scrutiny of the budget and the Executive's spending proposals. The Finance Committee has a key role in this:

The Finance Committee should be responsible for addressing overall budget priorities and for the presentation of budgets. It will be required to consider the views of Subject Committees and individual MSPs as well as the expenditure proposals of the Executive, from whom it should be independent. The Finance Committee's conclusions should form the basis of Plenary debate on budget matters, the results of which in time should inform the Executive plans.¹

The Finance Committee's role in scrutinising the Executive's spending proposals and its powers to introduce an alternative budget make full understanding of the relevant variables essential. It is intended that any research commissioned would ensure that the Committee is as informed as possible about budget options.

This is now the second year for which this type of budget analysis is being undertaken. One of the issues that emerged from the budget analysis for 2001/2 was the over-emphasis on budgetary **inputs** (i.e. cash spent). The Committee is of the view that amount spent is not the most appropriate measure of the effectiveness of expenditure in Scottish public services.

This is not just the view of the Parliament's committees. The introduction of Resource Accounting and Budgeting (RAB) for all UK government departments and the Scottish Executive, is partly designed to ensure a more effective use of resources than can be achieved through traditional cash accounting. There is therefore a wider move to introduce budgets and accounting that are increasingly linked to outputs and outcomes across the whole of government.

¹ The Scottish Office (1998), *Shaping Scotland's Parliament: Report of the Consultative Steering Group on the Scottish Parliament*, p.155

The Finance Committee has already commissioned one valuable piece of external research² which concluded that there was the need for examining the impact of budgetary change on public sector outputs and the report recommended that the Scottish Executive should provide increased information on **outputs** to enable the Committees to make effective choices over budget options. The Committee will approach the Scottish Executive to determine its response to these proposals.

In the meantime, the Committee would like to go one stage further and examine the scope for **outcome** related budgets. It is important to draw a distinction between 'outputs' and 'outcomes'. Outputs are products resulting from inputs (e.g. number of teachers) and should facilitate the meeting of outcomes. Outcomes should correspond to ultimate objectives - the impact of a policy intervention on the welfare of producers or consumers (e.g. better-educated school students). It is proposed that this research will concentrate on outcomes.

Research Aims and Objectives

It is important that the research is relevant to the Scottish budget process.

Aims:

Stage 1. To investigate the feasibility of outcome budgeting for the Scottish budget

Stage 2. To identify areas where it could be applied

Stage 3. To develop practical proposals to assist Committees in measuring outcomes in the analysis Scottish budget.

Objectives:

Stage 1 To investigate the feasibility of outcome budgeting for the Scottish budget

The specific objectives include:

- providing an overview of outcome budgeting
- identifying the extent to which and in what instances the Scottish Executive currently identifies and measures outcomes already and what plans it has to develop this in the future
- evaluating the current use of performance indicators in the Annual Expenditure Report
- identifying any **relevant** examples from other countries where outcome-based budgeting has been adopted (e.g. Oregon, Washington State etc)
- analysing the process and the benefits of this
- assessing whether any lessons can be learned from a change from 'inputs and process' towards 'outputs and outcomes'
- concluding if and in what instances outcome budgeting can be used in the Scottish context

²

Stage 2. Identify where in the financial processes for the Scottish budget it could be applied

The specific objectives include:

- identifying the most effective and viable time for outcome measurement, e.g. the budget process, policy review etc.
- identifying specific areas of the budget that are the most viable for outcome measurement.

Stage 3. Develop practical proposals to assist Committees in measuring outcomes in the analysis Scottish budget.

The specific objectives include:

- draw on the findings from Stages 1 and 2 to identify where outcomes measurement could be used by Parliamentary committees to inform their budget considerations
- provide specific guidance and tools to enable measurement of outcomes
- suggest practical proposals for changes in the Scottish budget documentation
- identify reasonable time frames for the Scottish Executive to move to producing more information on outcomes (in different programmes)

When does the committee require the results of the research?

The research should be completed by February 2002. A report on Stage 1 could be available by Christmas recess 2001.

What specific expertise is required to research this area?

It is envisaged that the contract would be awarded to an expert in public finance. The successful candidate may be either an academic, or someone working in the public or private sector with an understanding of public sector budgets and the resource issues underpinning them. A demonstrated previous interest in outcome measurement would be an advantage.

The researchers must be able to demonstrate their credibility within the field and their knowledge of the subject area.

He or she must also be able to show that they have the time and resources to undertake the work within the timescale set by the committee.

What are the expected outputs of this project?

1. A full report containing findings from Stage 1 and 2
2. Practical proposals for use by Parliamentary committees