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Renfrewshire Council

Notice of Meeting and Agenda
Council

Date	Time	Venue
Thursday, 28 June 2018	09:30	Council Chambers (Renfrewshire), Council Headquarters, Renfrewshire House, Cotton Street, Paisley, PA1 1AN

KENNETH GRAHAM
Head of Corporate Governance

Membership

Councillor Jennifer Marion Adam-McGregor: Councillor Tom Begg: Councillor Derek Bibby: Councillor Bill Binks: Councillor Bill Brown: Councillor Stephen Burns: Councillor Jacqueline Cameron: Councillor Michelle Campbell: Councillor Carolann Davidson: Councillor Eddie Devine: Councillor Andy Doig: Councillor Audrey Doig: Councillor Natalie Don: Councillor Alison Jean Dowling: Councillor Edward Grady: Councillor Neill Graham: Councillor Jim Harte: Councillor John Hood: Councillor Lisa-Marie Hughes: Councillor Karen Kennedy: Councillor Scott Kerr: Councillor Paul Mack: Councillor Alistair Mackay: Councillor James MacLaren: Councillor Kenny MacLaren: Councillor Mags MacLaren: Councillor Eileen McCartin: Councillor Colin McCulloch: Councillor Marie McGurk: Councillor John McIntyre: Councillor John McNaughtan: Councillor Kevin Montgomery: Councillor Will Mylet: Councillor Emma Rodden: Councillor Jim Sharkey: Councillor John Shaw: Councillor James Sheridan: Councillor Andy Steel: Councillor Jane Strang:

Provost Lorraine Cameron (Convener): Councillor Cathy McEwan (Depute Convener): Councillor Iain Nicolson (Leader): Councillor Jim Paterson (Depute Leader)

Further Information

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Items of business

Apologies

Apologies from members.

Declarations of Interest

Members are asked to declare an interest in any item(s) on the agenda and to provide a brief explanation of the nature of the interest.

1 Minutes of Meetings of Council, Boards and Panels

Minutes attached separately:

Council, 3 May 2018, pages 244-259
Placing Requests and Exclusions Appeal Panel, 16 May 2018, pages 260-261
Communities, Housing and Planning Policy Board, 22 May 2018, pages 262-277
Renfrew and Gallowhill Local Area Committee, 22 May 2018, pages 278-283
Regulatory Functions Board, 23 May 2018, pages 284-293
Appointment Board, 23 May 2018, pages 294-295
Education and Children's Services Policy Board, 24 May 2018, pages 296-301
Appointment Board, 24 May 2018, pages 302-303
Paisley North Local Area Committee, 24 May 2018, pages 304-313
Audit, Risk and Scrutiny Board, 29 May 2018, pages 314-321
Paisley South Local Area Committee, 28 May 2018, pages 322-327
Infrastructure, Land and Environment Policy Board, 30 May 2018, pages 328-343
Johnstone and the Villages Local Area Committee, 31 May 2018, pages 344-351
Petitions Board, 4 June 2018, pages 352-355
Appointment Board, 6 June 2018, pages 356-357
Finance, Resources and Customer Service Policy Board, 6 June 2018, pages 358-379
Cross Party Sounding Board, 6 June 2018, pages 380-381
Houston, Erskine, Riverside and Linwood Local Area Committee, 6 June 2018, pages 382-389
Regulatory Functions Board, 7 June 2018, pages 390-397
Placing Requests and Exclusions Appeal Panel, 7 June 2018, pages 398-401
Appointment Board, 12 June 2018, pages 402-403
Local Review Body, 12 June 2018, pages 404-411
Placing Requests and Exclusions Appeals Panel, 13 June 2018, pages 412-414
Placing Requests and Exclusions Appeals Panel, 19 June 2018, pages
Local Review Body, 19 June 2018 (to follow)
Placing Requests and Exclusions Appeals Panel, 20 June 2018 (to follow)
Leadership Board, 20 June 2018 (to follow)

2	**Unaudited Accounts 2017/18** Report by Director of Finance & Resources (accounts document attached separately)	9 - 18
3	**Scottish Government Fiscal Outlook - Medium Term Financial Strategy** Report by Director of Finance & Resources	19 - 140
4	**Treasury Management Annual Report 2017/18** Report by Director of Finance & Resources	141 - 150
5	**Governance Arrangements** Report by Director of Finance & Resources	151 - 156
6	**Renfrewshire Community Protection Chief Officers' Annual Report 2017/18** Report by Chief Executive	157 - 184

7 **Notice of Motion 1 by Councillors Sheridan and Sharkey**

"That this Council is gravely concerned by recent developments on the Israel-Gaza border and the killing and injuring of Palestinian protestors; affirms the right to peaceful protest and the right to freedom of expression; deplores the actions of those who seek to exploit peaceful protests to engage in violence; notes that Israel's effective control of access into and out of the territory means Gaza remains under occupation, that the health system is on the verge of collapse and that the recent influx of casualties has put the health system under even more pressure; supports the calls by UN Secretary General, Antonio Guterres, and EU Foreign Affairs representative Federica Mogherini for an independent and transparent investigation into the killing and injuring of Palestinians in Gaza during the protests; and urges the Government to call for and support an independent investigation, and, where breaches of international law and international humanitarian law are identified for those responsible to be held to account."

8 **Notice of Motion 2 by Councillors Hood and Kennedy**

"The Council condemns the lack of action to prevent the fouling by birds on the pavements and carriageways, under many rail bridges in Renfrewshire. The Council instructs the Chief Executive to meet Network Rail and any other relevant body to resolve this as a matter of urgency."

9 **Notice of Motion 3 by Councillors McCartin and Andy Doig**

"Council requests that correspondence with members of the public is responded to timeously within the specified 10 working days period, with an initial holding acknowledgement sent as a matter of course.

Council also requires to examine response times to official Community Council correspondence, and to shorten the 10 working days period in acknowledgement of their role as part of the democratic representation of the people of their area."

10 Notice of Motion 4 by Councillors Dowling and Strang

"Core Funding for Renfrewshire Citizens Advice Bureau

Council notes that Renfrewshire Council has been the principal funder of Renfrewshire Citizens Advice Bureaux (RCAB) core services, a core service being 'infrastructure' i.e. managing the service, volunteer recruitment and staff to deliver the minimum CAS-stipulated range of services. Additional funding has also been granted to establish specialist projects such as financial inclusion and money advice.

Council further notes that following the newly introduced competitive open-market procurement process, RCAB has been funded to deliver a range of specialist services , but is no longer funded a sum to support core services.

In addition, under the previous grant settlements, RCAB was funded to support 800 clients per annum; RCAB is now contracted to support 5,000 clients per annum. This translates to a significant increase in service requirements to be delivered with less financial resource.

Council accepts the need to maintain grant funding of £66.67k per annum over 36 months, paid quarterly, to run concurrently with the newly awarded contract Advice Services RC-CPU-17-098 for RCAB core services, to ensure the on-going sustainability of Renfrewshire Citizens Advice Bureaux core services and the overall survival of a key asset for our community."

11 Notice of Motion 5 by Councillors Devine and Kennedy

"Contribution to the Arts - Urban Regeneration

This Council recognises the positive contribution that the arts can make to urban regeneration and welcomes initiatives like 'Baker Street' as a positive contribution to Paisley's future."

12 Notice of Motion 6 by Councillors Andy Doig and Bibby

"Review of Car Parking Provision

Council notes the primacy of having a full and proper consultation with local communities in relation to the current review of car parking provision, as agreed in the decision by Renfrewshire Council on 21st December 2017.

Accordingly, Council believes in the interests of allowing the fullest scrutiny, and the fullest consultation, that the final decision on car parking provision should go to the full meeting of Renfrewshire Council on 27th September 2018 rather than the Infrastructure, Land, and Environment Board on 30th August 2018."

13 Notice of Motion 7 by Councillors Davidson and Kennedy

"Funding - RAH and Paisley Maternity Hospital - Repairs

That Council direct the Chief Executive to write to Shona Robison (SR), Cabinet Secretary for Health and Sport and Jean Grant (JG), Chief Executive of NHS GGC, to ask for a guarantee that the required funding will be invested in the infrastructure of the Royal Alexandra Hospital (RAH) and the Paisley Maternity Hospital, to deal with outstanding repairs and essential upgrades as a matter of urgency. Also, to request from both SR and JG that they will confirm the long-term future for all services currently provided in the RAH and the Paisley Maternity at the current site."

14 Notice of Motion 8 by Councillors Kennedy and Hood

"Renfrewshire's ASN Children

Council believes that not enough is being done to support Renfrewshire's ASN kids during school holidays. Council notes that despite having over a year to come up with suitable play schemes to support our children very little has been done leaving parents very frustrated. Council also notes that ASN children in Renfrewshire are being disadvantaged in comparison to mainstream children, council resolves to correct this and make appropriate provisions in order that our ASN children are afforded the same opportunities as their peers."

15 Notice of Motion 9 by Councillors McIntyre and Strang

"Gender Pay Gap

The Council notes the recent report to the April Leadership board on the gender pay gap. While this report showed many positives, it highlighted that the Craft trades employ no women whatsoever.

The Council commits to further investigations into the reasons for this including, barriers to women applying for these roles.

The Council also commits to take positive action up to the point of recruitment to address any barriers identified."

16 Notice of Motion 10 by Councillors Burns and McEwan

"Council calls upon the Uk Government to consider introducing a levy on chewing gum manufacturers, the proceeds of which should be redistributed in full to local Authorities, in order to help the massive and costly problem of removing gum from our streets and pavements."

17 Notice of Motion 11 by Councillors Andy Doig and Hood

"Congratulations to Johnstone Pipe Band 2018

Council congratulates Johnstone Pipe Band for securing the Grade 3B title at the recent Pipe Band Championships in Paisley, and further salutes all band members for their fantastic efforts in putting the town of Johnstone on the map of world piping."

18 Notice of Motion 12 by Councillors Sheridan and Sharkey

"Baron Duncan Paisley of Westerlea Civic Reception 26th August 2018

That this Council recognises the decision of the Finance, Resources and Customer Services Finance Policy Board on 6th June 2018 re. the above and seeks sight of the invited guest list and their connection/relationship with Paisley/Renfrewshire for transparency and approval."

19 Notice of Motion 13 by Councillors Hughes and Campbell

"Processions 2018

Council congratulates Paisley 2021 Bid Director Jean Cameron and former MP Anne Mclaughin on their very successful coordination of the Scottish element of 14-18 Now's 'Processions', which took place on 10th June 2018 in Edinburgh.

Processions is a live artwork that recreated the marches of suffragettes, on the centenary year of their success in gaining votes for women over 30. It took place Edinburgh, Belfast, Cardiff and London, and each Procession wore scarves in violet, white and green which created a moving Suffragette flag following an original march route.

Processions in Edinburgh was attended by thousands of women and girls from all over Scotland. Renfrewshire was well represented, with the Feegie Wummin, the STAR Project and Active Communities' KAIROS group in attendance among others. It was a vibrant, welcoming and inclusive event that celebrated radical women who made history."

20 Notice of Motion 14 by Councillors McNaughtan and Mylet

"This Council congratulates local groups and individuals who participated in Processions in Edinburgh to mark the centenary of women's suffrage and notes, with pleasure, the intention to name most of the streets in the new housing development at Hawkhead after notable Paisley women, many of whom were instrumental in the struggle for women's rights."

21 Notice of Motion 15 by Councillors Rodden and McGurk

"Council agrees to write to Network Rail and Scotrail to ask for a review of Parking Provisions at Lochwinnoch Train Station including disabled parked spaces. Council will also request that the relevant authority request or make provision for disabled facilities at platform 2 at Lochwinnoch where no such facilities exist."

22 Notice of Motion 16 by Councillors J MacLaren and Strang

"Grass cutting

In many areas across the council, residents are disappointed at the lack of grass cutting or large time gaps between each cut. In situations where it has been a while since the last cut, the grass is long and when left lying makes the open spaces look un-kept. Many residents ask for the grass to be collected rather than left lying. It is recognised that with some types of machinery it may not always be possible to fit grass collection boxes. The Director of Environment & Communities is asked to bring back to the Infrastructure, land and Environment Policy Board a report on the cost of adding collection boxes to the grass cutting machinery and where possible collecting and disposing of the grass cuttings."

23 Notice of Motion 17 by Councillors J MacLaren and Kerr

"Understanding of cyclists behaviour on the road.

This council agrees to the following:

That there is a lack of understanding by motorists on the way cyclists should behave on the roads. Many drivers think that it is wrong for cyclists to cycle two abreast when this is sometimes actually encouraged by cycling organisations, or that cyclists should not be cycling in the gutter and should take up a more prominent position on the road to protect themselves.

That Council writes to the Secretary of State for Transport and ask that an understanding of the way cyclists should behave on the road should be incorporated into the driving test.

That Council also encourages more road safety training for cyclists (e.g. through Bikeability,) for both adults and children."

24 Notice of Motion 18 by Councillors J MacLaren and McIntyre

"Adoption of roads in new developments

Council does not agree with the current lottery of adoption of roads in new developments. It is unfair to expect residents living in a cul-de-sac to pay a factor to maintain their road on top of their council tax, when the same house perhaps only 200 metres away could pay the same council tax and no factoring fee, because their road got adopted for no clear reason.

Council agrees that any developers building new roads in Renfrewshire are encouraged to build them to a standard that could enable the council to adopt them."

Renfrewshire Council

To: Council

On: 28 June 2018

Report by: Director of Finance & Resources

Heading: Annual Accounts 2017/18

1. **Summary**

1.1 The Council's Accounts and Group Accounts for 2017/18 will be submitted for audit by the statutory deadline of 30 June 2018 and a copy of the Council's Accounts is attached for members' approval, along with the accounts of the charities the Council controls.

1.2 The external auditor (Audit Scotland) will complete the audit process by early September 2018. Their report on the Accounts will be made available to all members and will be submitted to the meeting of the Audit, Risk & Scrutiny Board on 25 September 2018 for consideration.

2. **Recommendations**

2.1 Approve, subject to Audit, the Annual Accounts for 2017/18.

2.2 Note that Audit Scotland is planning to complete the audit of the Accounts by early September 2018 and that their report will be made available to all members and will be submitted to the meeting of the Audit, Risk & Scrutiny Board on 25 September 2018 for detailed consideration.

2.3 Approve the sums earmarked within the General Fund reserves and HRA reserves as outlined in 3.3 below.

2.4 Approve the transfer of resources outlined in Table 1 below.

2.5 Approve, subject to audit, the annual accounts attached for the Common Good Funds and Charitable Trusts which under accounting regulations require to be separately prepared and audited from the Council's accounts.

3. Background

3.1 The Council's Accounts and Group Accounts for 2017/18 will be submitted for audit by the statutory deadline of 30 June and a copy of the Council's Accounts is attached for members' approval. The accounts have been compiled to comply with International Financial Reporting Standards (IFRS) and relevant government accounting regulations. In order to comply with charity accounting requirements, the Council's Accounts do not incorporate statements relating to the Common Good Funds and Charitable Trust Funds which the Council controls. In both these instances, separate accounts have been prepared in accordance with registered charities accounting requirements and are also included for members' approval.

3.2 The external auditor (Audit Scotland) is planning to complete the audit process by early September. Their report on the Accounts will be made available to all members and will be submitted to the meeting of the Audit, Risk & Scrutiny Board on 25 September 2018 for consideration.

3.3 The Management Commentary prefacing the Accounts provides an overview of the Council's financial performance and the key features are:-

(a) Revenue spending has been contained within overall budget limits.

(b) After adjusting for planned carry forwards, carry forward of committed resources and year end allocations, the General Fund has delivered an underspend of £0.039 million after the transfer of £3.8 million to the capital investment fund as previously agreed, broadly in line with the forecast breakeven position previously reported to members. Unallocated balances increase to £7.094 million moving into 2018/19, again in line with the minimum level recommended to the Leadership Board in December 2017. This figure excludes £1.132 million of Scottish Government grant related to 2018/19 but which was allocated to the Council in 2017/18; and which was agreed by Council to be carried forward to 2018/19. As previously reported to members, the maintenance of an appropriate level of unallocated reserves remains a key aspect in the management of financial risk which Audit Scotland have indicated they will keep under ongoing review across all local authorities.

(c) Of the overall General Fund reserves, the following are proposed to be earmarked:

- £0.566 million to fund the Council's anticipated final contribution to the M74 extension project. Glasgow City Council have confirmed that finalisation of this project will be achieved in 2018/19.

- £0.479 million as approved by the Economy & Jobs Policy Board on 20 May 2015 reflecting the flexible management of resources across financial years as part of the overall funding package supporting the delivery of the Invest in Renfrewshire Programme.

- £1.656 million of 2017/18 funding made available to the Renfrewshire HSCP which has been agreed to carry forward to offset adult social care service pressures anticipated in 2018/19; and a further £0.010 million related to specific sensory impairment funding received in 2017/18 which will be utilised by the HSCP in 2018/19.

- £1.161 million relating to the Council's approved policy on delegated management of resources within schools.

- £1.783 million to support delivery of the Council's medium term waste strategy.

- £3.681 million relating to the Service Modernisation and Reform Fund (SMARF) which is set aside to assist in the delivery of the Council's transformation and change programme.

- £2.399 million of funding carried forward to support the delivery of committed projects as part of the Private Sector Housing Programme as approved on 15 March 2016 by the Housing and Community Safety Policy Board.

- £1.059 million approved by the Council on 27 February 2014 to development initiatives on the Arnott's town centre site in Paisley.

- £0.031 million of planned revenue contributions to a number of approved capital projects principally relating to the Community Safety.

- £2.461 million of resources committed to the ongoing Early Years Strategy and Change Fund arrangements as reported to the Education and Children Policy Board on 14 May 2015.

- £12.670 million for the Schools PPP reserve in line with the Council's approved affordability framework.

- £1.481 million of resources committed to support the City Deal project as approved by Council on 13 February 2014.

- £0.703 million of resource committed to support measures to Tackle Poverty as approved by Council on 12 February 2015.

- £3.195 million of resource committed to support the Heritage Asset Strategy as agreed by Council on 12 February 2015

- £1.613 million of specific grant related to the Pupil Equity Fund

- £0.503 million of resource committed to fund town centre public wifi as agreed by Council on 3 March 2016

- £1.531 million of resource agreed by the Leadership Board on 21 February 2018 in relation to legacy activities from the City of Culture 2021 bid.

(e) Unallocated HRA reserves as at 31 March 2018 have been maintained at £6.807 million. This represents a prudent level of unallocated reserves for the HRA which remain available to mitigate the impact of any unforeseen risks.

(f) As detailed in Table 1 below, specific reserves now total £89.896 million, an increase on last year of £5.531 million which relates primarily to resources committed to the Council's capital investment programme and resources retained as part of delivering the council's ongoing medium term debt smoothing strategy.

Table 1

	Opening balance £ms	**Contributions to Reserves £ ms**	**Reserves Used / Transferred £ ms**	**Closing balance £ ms**
Insurance Fund	2.543	-	-	2.543
Reservoir Repair Fund	0.314	0.001	-	0.315
Education Capital Items	0.766	0.586	0.220	1.132
Investment Programme Capital Fund	80.742	9.484	4.320	85.906
Total	**84.365**	**10.071**	**4.540**	**89.896**

(g) Capital spending of £61.543 million on non housing projects was managed within the overall expenditure control limits approved by Council.

(h) The Council has agreed to discontinue trading operations from 1 April 2018, therefore 2017/18 is the final year in which trading operation financial performance will be reported. Both Building Services and the catering trading operation under-recovered against the budgeted target surplus – further detail is provided in section 4.9 below.

(i) The Council's in year council tax collection performance for 2017/18 was 96%, and is consistent with that reported in the previous year, equalling the highest ever performance achieved by the Council.

4. FINANCIAL PERFORMANCE 2017/18

4.1 This section of the report provides an overview of the budget performance for each service.

DEPARTMENTAL PERFORMANCE - GENERAL FUND REVENUE BUDGET

4.2 **Chief Executive's Service - £63,000 (1%) under-spend**

The underspend relates to staff vacancies over the course of the year.

4.3 **Finance and Resources - £63,000 (0.2%) under-spend**

The year-end under-spend is a marginally improved position to that previously reported to members and relates primarily to an over-recovery of income mainly related to licensing, and employee cost underspends.

4.4 **Environment & Communities - £186,000 (0.4%) over-spend**

The overspend for the department relates to the costs of responding to the severe weather experienced in late February and early March 2018, offset by additional income received from the Scottish Government which was allocated to address these costs.

4.5 **Development & Housing Services - breakeven**
There are no significant variations from budget to report.

4.6 **Children's Services - £36,000 (0.02%) under-spend**

Overspends in Additional Support for Learning and central administration have been offset by lower than anticipated expenditure on external placements.

The underspend is after accounting for year end budget flexibility carried forward by schools under Council's Delegated Management of Resources (DMR) Scheme as detailed in section 3.3 above.

4.7 **Adult Services - breakeven**

The breakeven position is the net result of overspends in older people and physical disability services; offset by underspends in addiction services.

4.8 **Miscellaneous and Leisure Services – £61,000 (0.1%) overspend**

The net year-end position on miscellaneous and leisure services was a marginal overspend linked to the debt smoothing strategy and supporting debt repayments within the Council's overall financial position.

4.9 **Trading Operations – Underachievement of planned Surplus - £0.257 million**

Building Services achieved a surplus for the year of £0.315 million, while Roads Services achieved a surplus for the year of £0.142 million. Catering and Vehicle Maintenance trading operations achieved surpluses of £0.308m and £0.528m respectively. The overall surplus on all trading operations for the year of £1.293 million was £0.257 million less than the planned surplus of £1.550 million. This under-recovery against the planned surplus is attributable to Building Services and Catering Services. Due to the severe weather experienced in early February and early March both trading operations were affected as the catering account lost income for days when council facilities and schools were closed. In addition, Building Services staff were also redirected to support the response to the severe weather, further impacting on the level of rechargeable works; while the catering service experienced inflationary pressures on food and provisions costs. The surplus for the year from the trading operations has been added to General Fund balances, with the exception of Building Services, 89% of which was transferred to the Housing Revenue Account balance in line with agreed Council policy.

Table 2

	Surplus 2015/16 £000s	Surplus 2016/17 £000s	Surplus 2017/18 £000s	Target Surplus 2016/17 £000s	Total Surplus 15/16 - 17/18 £000s
Building Services	587	281	315	468	1,183
Roads Direct	133	129	142	125	404
Vehicle Maintenance	514	508	528	506	1,550
Catering	457	455	308	451	1,220
Total	**1,691**	**1,373**	**1,293**	**1,550**	**4,357**

4.10 **Council Tax Income - £1.093 million over-recovery**

Council tax income has over recovered against budget and the in year collection level of 96% is consistent with that reported in the previous year. This represents a continued positive level of collection performance in what remains a challenging economic environment for both residents and the Council.

4.11 **Housing Revenue Account (HRA) – Break-even**

The final year end breakeven position is in line with the projection previously reported and reflects the net effect of underspends in administration costs and payments to other bodies which have been used to fund an overspend in property costs and increased capital contributions as part of the overall housing debt smoothing strategy.

The administration costs underspend is made up of underspends against central support costs and recharges, including telephone costs, postages, advertising and printing.

The underspend on payments to other bodies has mainly arisen due to lower than expected levels of irrecoverable rent due to the delay in the roll out of the Universal Credit live service. Rent loss due to voids was also underspent, reflecting the continuing improvement in the management of void houses.

An increase in repairs costs during the Winter season relating to the significant period of cold weather and heavy snow, coupled with an increase in gas repair costs resulted in an overspend in Property Costs.

The overspend in capital charges relates to the increased capital contributions made as part of the HRA Business Plan Strategy to utilise in year underspends to assist in mitigating the impact of future capital borrowing costs arising from the delivery of investment in housing stock.

Unallocated HRA reserves as at 31st March 2018 have been maintained at £6.807 million. This represents a prudent level of unallocated reserves for the HRA which remain available to mitigate the impact of any unforeseen risks. The remaining reserve funding ringfenced to mitigate the impact of welfare reform has been used to smooth debt repayments which will allow these support measures to be incorporated into mainline service provision as agreed by Council on 3 March 2018.

5. BUDGET PERFORMANCE - CAPITAL

5.1 Non Housing Capital Budget Performance

Non-Housing capital expenditure totalled £60.033 million during 2017/18. Capital receipts of £1.218 million were generated from asset sales. These receipts along with £6.566 million available within the Useable Capital Receipts Reserve provided total receipts of £7.784 million. From this, £0.167 million was utilised to support current year investment leaving a balance of £7.617 million which has been earmarked to support the ongoing investment programme for future years. The capital investment performance was delivered within the approved prudential expenditure and borrowing limits set by the Council.

5.2 Housing Capital Budget Performance

Housing capital expenditure totalled £10.951 million during 2017/18. Capital receipts of £1.066 million were realised from asset sales during 2017/18. These receipts along with £1.065 million available within the Useable Capital Receipts Reserve provided total receipts of £2.131 million which was utilised to support the current year investment programme.

6 PRUDENTIAL FRAMEWORK

6.1 The Prudential Framework approved by the Council is supported by a number of indicators and the Council's performance against these indicators is reported in the Management Commentary in the Accounts. A further report outlining the treasury management activity undertaken in 2017/18 is also on the agenda for this meeting.

7. GROUP ACCOUNTS

7.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 – ("the code"), requires local authorities to consider accounting for their interests in all types of entity e.g. Joint Boards & Committees, Leisure Trusts, companies etc. This includes other local authorities or similar bodies as defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Valuation Joint Boards plus all Joint Committees. Under the code authorities are required to prepare a full set of Group Accounts in addition to their own Council's Accounts where they have a material interest in such entities.

7.2 To comply with the mandatory requirement for such disclosures we have once again reviewed over the last year a number of organisations with which the Council is involved against the accounting guidelines as detailed in the code. We have concluded that the Council is required to prepare Group Accounts and to consolidate the results of the Council with a share of a number of other entities.

7.3 The entities that are deemed to fall within the Council's group boundary are:

Joint Boards encompassing the Strathclyde Concessionary Travel Scheme Joint Committee, Strathclyde Partnership for Transport, the Renfrewshire Valuation Joint Board and the Renfrewshire Integration Joint Board,

Paisley, Renfrew & Johnstone Common Good Funds and other Charitable Trusts administered by the Council,

Renfrewshire Leisure Limited, and

Park Lane Developments (Renfrewshire) LLP.

7.4 Both the Council's own Accounts and the Group Accounts need to be submitted together by the 30 June to our auditors to meet the statutory deadline.

8. Common Good Funds and Sundry Trust Annual Accounts

8.1 Under accounting requirements introduced in 2010/11, the Council is required to present the annual accounts of both the Common Good Funds and the Charitable Trusts separately from the Council's main accounts. In addition, the

Council is also required to put in place audit arrangements which are separated from the audit of the Council and its own financial statements.

8.2 Enclosed therefore for members approval for submission for audit are the annual accounts for both the Common Good Funds and the Charitable Trusts which have been prepared in line the Charities Statement of Recommended Accounting Practice (Charities SORP).

Implications of the Report

1. **Financial** – the report provides an overview of the Council's financial performance over the course of 2017/18 and as at 31 March 2018. The annual accounts will be presented for audit with the audit findings being reported to the Audit, Risk and Scrutiny Board on 25 September 2018. The report outlines continued sound budgetary control and management of council expenditure within available resources.

2. **HR & Organisational Development** - none

3. **Community/Council Planning –** the report outlines continued sound financial management which supports the council to deliver on its key community and council plan objectives.

4. **Legal** – subject to approval by Council, the annual accounts will be released to external audit within the statutory timescales.

5. **Property/Assets** - none

6. **Information Technology** - none

7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** - none
9. **Procurement** – none
10. **Risk** - none.
11. **Privacy Impact** - none
12. **Cosla Policy Position** – none

Author: Alan Russell, Director of Finance

Renfrewshire Council

To: Council

On: 28 June 2018

Report by: Director of Finance & Resources

Heading: Scottish Government Fiscal Outlook - Medium Term Financial Strategy

1. **Summary**

1.1 The Scottish Government published a medium term financial strategy on 31 May 2018 (attached as an appendix to this report) which sets out the Scottish Government's view of public finances and its approach to using the financial powers available under the Scotland Acts 2012 and 2016 over the next 5 years.

1.2 The production of the document addresses a key recommendation of the Scottish Parliament Budget Process Review Group, and will inform a new annual budget cycle. The document will be updated annually.

1.3 The strategy outlines key priorities for the Scottish Government and outlines potential scenarios for funding these; and also details other areas of public services (including local government) which are likely to face further reductions in funding over the period of the strategy.

2. **Recommendations**

2.1 Note the Fiscal Outlook published by the Scottish Government and the priority areas for funding outlined.

2.2 Note the implications for the Council in terms of potential further reductions in grant funding, and the potential scenarios for these which will be incorporated into the Council's financial planning assumptions.

2.3 Note that an updated financial outlook for the Council will be presented to members in the Autumn of 2018.

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3. **Background**

3.1 The Scottish Government has introduced a new approach to setting their budget strategy, with part of this process being the annual publication of a Medium Term Financial Strategy (MTFS). The MTFS is intended to set out expectations and broad financial plans and principles for utilising the devolved financial powers of the Scottish Government; along with scenario plans and projections for at least 5 years ahead. At the same time, the Scottish Fiscal Commission (SFC) will also publish revised economic and fiscal forecasts.

3.2 The publication of the MTFS addresses key recommendations of the Scottish Parliament Budget Process Review Group (BPRG) review into the Parliamentary budget process. A materially revised budget process has been agreed and which has been detailed in a SPICe briefing, a copy of which is attached for members reference.

The review recommended the MTFS should consist of:

- forecast revenue and demand-led spending estimates from SFC and their effect on Scottish public finances;
- broad financial plans for next five years;
- clear policies and principles for using, managing and controlling the new financial powers;
- scenario plans based on economic forecasts and financial information in order to assess potential impact of various scenarios on the budget.

3.3 The first MTFS was published at the end of May, along with the latest economic and fiscal forecasts of the SFC. The next step in the new budget process will be the publication, in September, of the first annual Fiscal Framework Outturn Report.

4 MTFS priorities

4.1 The MTFS outlines probably the clearest statement of intent by the Scottish Government of its future funding plans for a considerable time, and it includes confirmation of the Scottish Government's spending priorities:

- Health, with a budget of around £13 billion in 2018-19, but rising to over £14 billion by 2021-22 (and with scope for further increases, not included yet, in 2022-23);
- Police, with a budget of around £1 billion which is protected in real terms, i.e. growing at the rate of inflation;
- Early Learning and Childcare (ELC) Expansion, with a budget rising to over £500 million by 2021 and which will form part of the Local Government resource funding;
- Attainment, (i.e. raising attainment levels and closing the attainment gap) via the £750 million Attainment Scotland Fund covering the term of the Parliament;
- Higher Education, with a budget of over £1 billion; and
- Social Security, with a budget that grows to over £3 billion by 2021-22, largely due to the phased transfer of responsibilities from the UK Government.

4.2 When looking at future budgets by expenditure subject, the Scottish Government assumes that spending on its stated priorities will be unchanged when moving from lower range to upper range scenario outcomes it has modelled as part of this medium term financial planning process. The strategy explicitly states that this means the level of funding remaining, which consequently varies significantly between the lower, central and upper planning scenarios, is there to support spending on non-priority areas – the greatest element of which is Local Government. The overall Resource Budget that is utilised by the six commitments highlighted above grows from 56% in 2019-20 to 64% in 2022-23 under the central planning scenario. Of the remaining £12 billion of funding, the majority relates to local government. Due to the six commitments taking up an increasingly greater share of the overall Resource Budget over time, the other areas of the budget are inevitably squeezed when the overall budget is anticipated to experience relatively limited growth in cash terms.

4.3 As referred to above, the MTFS approach adopted by the Government, sets out three different Resource expenditure funding scenarios (upper, lower and central). When Social Security transfers are excluded then the central scenario for the Resource Budget shows very shallow cash growth / a minor real terms decline from 2018-19 to 2022-23. The MTFS report also notes that -“It is, however, clear that even under the most optimistic scenario, if no reprioritisation or reform were agreed and no additional revenues generated, then efficiency savings of 5 per cent per year could be required. While future efficiency targets (rightly) will be challenging, the decisions we take will ensure they are manageable.”

4.4 It is unclear whether this means that all spending areas captured within the “Other” category will need to find such savings (including the core local government settlement) or whether they will be concentrated in just a few. However, given this and in the context of the range of scenarios outlined in the fiscal outlook set out by the Government over the next 5 years, the local government budget is likely to face material cuts – potentially in both cash and real terms. At this stage it is not clear from the format of the published information what this is likely to be, although as mentioned above the strategy would appear to suggest this could be as high as 5% per annum. If a 5% grant cut represents a realistic scenario, this would significantly increase the scale of the funding challenges facing the Council.

4.5 COSLA officers are currently in dialogue with Scottish Government officials to establish the detailed figures which support the published document to secure greater clarity of what the forecast scenarios may mean for the core local government grant in future years. Once clarity is secured in this regard, the Council’s medium term financial outlook and financial planning arrangements will be updated accordingly.

 Scottish Fiscal Commission forecasts

5.1 Concurrently with the Scottish Government issuing the MTFS the SFC issued revised economic and fiscal forecasts. These forecasts have been incorporated in the MTFS assumptions and scenarios.

5.2 After introducing a number of downgrades to key Scottish economy outcomes in its first (December 2017) report, the SFC have done so again in this their second set of forecasts. The comparison between the UK economy, itself struggling at present in the context of what would be regarded as being historically stable growth conditions, and the Scottish economy is stark, with GDP and wages both growing much more slowly in Scotland. Key points to note are:

- Economic growth: Scottish GDP growth is now forecast to remain below 1% a year for the foreseeable future (up to at least 2023). This is less than half the rate of growth the Scottish Government had been predicting 18 months ago and is highly dependent on a significant bounce back in Scottish productivity, which is by no means certain.

- Wages: Scottish wages growth is also below what the Scottish Government had been expecting 18 months ago and in real terms average wages will not surpass their 2016 level until 2022.

- Taxation: Income Tax receipts are now forecast to be below the level expected 18 months ago. These have been negatively affected by the downgrading of both GDP growth and of wages growth. As a result, income tax revenues are £1.3 billion lower in 2021-22 than was forecast at the end of 2016.

5.3 Despite slower growth in GDP and wages, forecasts of Scottish income tax revenues in coming years are still on a par with those seen for the UK (just over 20% in the period 2017-18 to 2022-23). This is in part due to the increases in Scottish income tax rates, above those that apply in the rest of the UK, introduced by the Scottish Government.

5.4 In summary, the broad set of economic indicators and forecasts, presents an outlook which anticipates that Scotland's economic position is at risk of being materially poorer in comparison to the rest of the UK. This presents a material risk of future negative adjustments for the Scottish Government budget through the Fiscal Framework arrangements (ie the block grant adjustment mechanism) that underpin the 2016 Scotland Act fiscal devolution arrangements as well as potentially poorer overall Tax revenue growth – driven by economic growth and growth in wages - emerging for the Government than that previously anticipated.

6 Financial Outlook

6.1 The forecasts and priorities outlined in the MTFS in concert suggest a poorer outlook for the local government settlement than has been experienced in recent years. Under the revised budget process the next stage will be the publication in September of the Fiscal Framework Outturn Report which will include audited outturn information in relation to tax revenues, including any potential implications for future financial years. Following this the next significant budget event will be the UK government Budget in November, followed in December by the Scottish Budget. Again, it is likely that a single year budget will be presented.

6.2 It is proposed that an updated Financial Outlook report will be presented to members in the Autumn in advance of the Budget announcements and as outlined above, informed by greater detailed information secured from the Government in relation to some of the high level information published in the MTFS in relation to local government core grant prospects.

Implications of the Report

1. **Financial** – the financial strategy outlined by the Scottish Government suggests that local government will continue to receive constrained and potentially declining grant settlements over the next 5 years. The Council's financial plans will be revised to fully incorporate these potential further reductions in available funding.

2. **HR & Organisational Development** – the financial resources available to the Council will be a key determinant in the future shape and size of the Council workforce.

3. **Community/Council Planning** – none

4. **Legal** - none

5. **Property/Assets** - none

6. **Information Technology** - none

7. **Equality & Human Rights** - the Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** - none

9. **Procurement** – none

10. **Risk** – the future financial position and stability of the Council is a key risk within the Council's risk management plans. The report outlines potential further reductions in funding which could heighten this risk.

11. **Privacy Impact** - none

12. **Cosla Policy Position** – COSLA are actively engaging with the Scottish Government with regards the detail within the MTFS and the potential implications for local government and the services it provides.

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Scotland's Fiscal Outlook

The Scottish Government's Five Year Financial Strategy

May 2018

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Foreword by the Cabinet Secretary for Finance and the Constitution

The context and content of the Scottish Budget has changed significantly since the Scottish Parliament began scrutinising our budget almost 20 years ago.

Since then we have seen the devolution of a range of additional powers to the Scottish Parliament, including the ability to raise our own tax revenues, and we have seen the introduction of a new Fiscal Framework that sets out the way in which Scottish public finances will be managed.

This changing landscape and increasing complexity of our public finances requires adjustments both to the way in which the Scottish Parliament undertakes its scrutiny of the budget and the way in which the Scottish Government manages Scotland's public finances.

This document forms a key part of the revised Parliamentary budget process that has arisen out of the Budget Process Review Group and the development of a year-round approach to budget scrutiny.

It ensures that both Parliament and Government have foresight of the financial challenges and opportunities that lie ahead and will help ensure that we are able to adapt to these circumstances to fund the public services which our people and economy rely upon.

The Scottish Government will continue to manage Scotland's finances in a competent, responsible and balanced way – as has been the case in every year since 2007. This will include the continuation of our approach to taxation being founded on our four key principles of *Certainty, Convenience, Efficiency* and *Proportionality*, ensuring that we are able to provide stability for our taxpayers and public services during the turbulent and uncertain economic climate in the coming years.

Growing and supporting the Scottish economy is key to our efforts to ensure financial stability and to maximise the resources available for our public services. Transforming Scotland's economy is at the heart of everything this Government does, including the way in which we plan, utilise and allocate our available financial resources.

The Scottish Government is ambitious for Scotland and we will target our resources to support the delivery of the social contract. Over the remainder of this Parliament we will deliver on our key commitments, built on the principle of equality for all, from birth through early years and education, to employment and retirement. We will ensure that people are able to access essential public services, when they need them, which are free at the point of delivery. This will include our commitments to:

- increase resource spending on the NHS by £2 billion over the course of this Parliament;
- protect the Police resource budget in real terms for the entirety of the Parliament;
- a transformative expansion of Early Learning and Childcare (ELC) provision – increasing funded entitlement to 1,140 hours per year;
- allocate £750 million through the Attainment Scotland Fund, over the term of the Parliament to tackle the attainment gap;
- protect free tuition and commit to provide an annual minimum income for the least well-off full-time students in Higher Education; and
- shape and fund a distinctly Scottish social security system based on dignity and respect.

In order to support that ambition, this Medium Term Financial Strategy explains the Fiscal Framework and funding arrangements that the Scottish Government now operates within, outlines our approach to financial management and fiscal rules, sets out a range of possible funding scenarios for the Scottish Budget over the next five years based on Scottish Government modelling using the Scottish Fiscal Commission economic and fiscal forecasts as the central scenario. The Strategy also details our key policy priorities and approach to supporting Scotland's economy.

The economic and financial outlook is uncertain, and delivering our first Medium Term Financial Strategy over multiple years, as a devolved government working within a UK framework, is not straightforward.

Our public finances continue to face the impact of the financial constraints imposed on us by the UK Government's austerity approach and the financial pressures created through the £2.6 billion real terms reduction in our discretionary block grant (between 2010-11 and 2019-20), but the Scottish Government is determined to deliver a strong economy, protect the delivery of public services and reduce inequality – all of which will continue to be supported through our longer term approach to financial planning.

The Scottish Government does not have all the flexibility and levers available to the UK Government to manage and plan its finances. We do not at this stage have any confirmed resource budgets beyond 2019-20, and the forecasts that underpin the Strategy will change between now and the point that we set firm budgets in the future. Funding levels in this document are indicative and our approach to setting firm budgets for future years will require refinement and adjustment based on the most up to date information at the time.

This document also makes a case for the UK Government to make different choices on their approach to economic and fiscal policy, in view of the impact of their current approach to Scotland's public finances. In particular, this includes taking a different course on austerity, the UK Government's intention to leave the EU Single Market and Customs Union and their damaging approach to immigration. The UK Government's proposed approach on immigration alone could see real Gross Domestic Product in Scotland 9.3 per cent lower by 2040, undermining tax revenues and public services. Different choices on any or all of these policies would deliver a better deal for Scotland. We will continue to make the case for the UK Government to change its course where its policies are damaging our economy and public services.

It is clear that the economic and financial outlook over the medium term will be challenging, but it is the job of the Scottish Government to manage those challenges and to prioritise our use of the Scottish Budget to effectively deliver on our commitments, grow the economy and support our vital public services.

This is the first step in the new budget process and it is one that will evolve over time, to continue to support the Scottish Government's responsible approach to financial management.

Derek Mackay MSP

Cabinet Secretary for Finance and the Constitution

1 Introduction

1.1. The purpose of this document is to set out a medium-term view of Scotland's public finances and the Scottish Government's broad approach to using the new financial powers that were provided through the Scotland Acts 2012 and 2016.

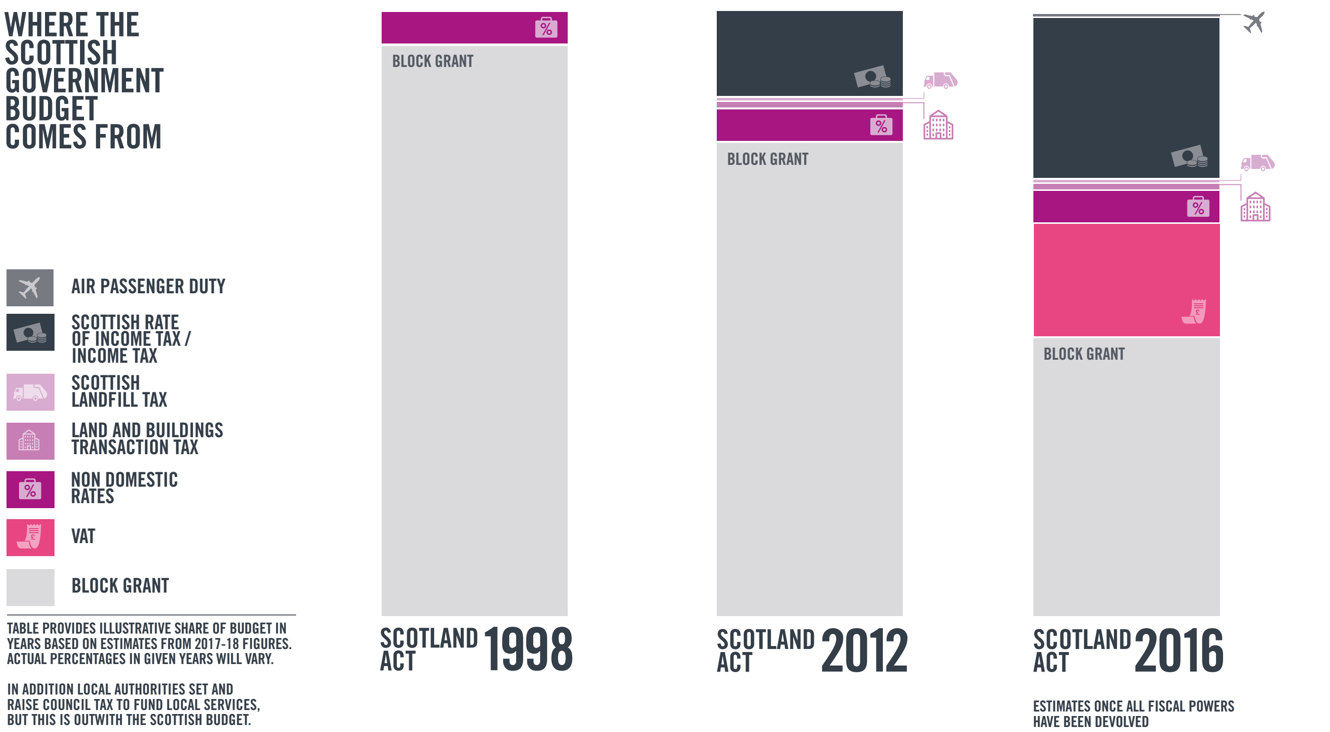
1.2. This is the first time that this document has been produced and it is expected to develop further in future years as more information becomes available and experience of working within the Fiscal Framework grows.

1.3. The Scottish Government has implemented a number of new fiscal powers in recent years and is implementing the remaining new powers against the background of the UK's exit from the EU, the potential economic impact of which will be a factor both in the tax revenues likely to be raised in Scotland and in future spending decisions. Despite the introduction of these new powers, the fiscal outlook remains largely dependent on spending decisions made by the UK Government.

1.4. The period since the introduction of Land and Buildings Transaction Tax (LBTT) and Scottish Landfill Tax (SLfT) in April 2015 has been one of unprecedented change in Scotland's fiscal landscape. Revenues raised in Scotland up to financial year 2014-15 made up under 10 per cent of the overall funding for devolved expenditure; by 2020-21, with the assignment of Value Added Tax (VAT), they will make up approximately 50 per cent of that funding. In addition, the implementation of the new social security powers under the Scotland Act 2016 is the largest and most complex programme of change being delivered since devolution and is likely to provide a transfer to the Scottish Budget of more than £3.5 billion for these new responsibilities.

1.5. Figure 1.1 illustrates how these changes affect the components of funding for the Scottish Government. Once all Scotland Act 2016 fiscal powers are devolved, it is expected that approximately 50 per cent of the Scottish Government's budget will come from devolved or assigned taxes.

FIGURE 1.1 – SOURCES OF SCOTTISH GOVERNMENT FUNDING



1.6. Delivering improved public services within this rapidly changing financial landscape is made more challenging by the impact of UK Government austerity. Over the decade between 2010-11 and 2019-20, Scotland's discretionary resource budget allocation – the funding for day-to-day government expenditure – has reduced by more than 9 per cent or £2.6 billion in real terms.

1.7. As set out in Chapter 6, Scottish Government analysis suggests that these real terms reductions in the budget allocations from the UK Government are likely to continue over the next five years. The central projection for HM Treasury resource budget allocations, on a like for like basis, indicates that a further real terms reduction of around 1 per cent (approximately £250 million) in resource budgets between 2018-19 and 2022-23 is likely.

1.8. While the economic and fiscal outlook has rarely been so uncertain, that only enhances the case to look further ahead, so that we are best able to adapt to fund the public services which our people and economy rely upon. In line with our Fairer Scotland vision, we will aim to do this in a way that understands the impact of our revenue generation and budget allocation decisions on the diversity of our population.

1.9. Developing a longer term financial outlook is a sensible planning mechanism for a mature government to follow. We have taken an overview of the factors above in setting out our Medium Term Financial Strategy.

1.10. In 2016, the Scottish Parliament established the Budget Process Review Group to undertake a review of the Parliament's budget process. The production of this document addresses some of the key recommendations from this group (and from Audit Scotland) and contributes to the new annual budget cycle which those recommendations introduce. It is also a contribution to our commitment to be an Open Government pioneer, and to stimulate engagement in our democratic processes throughout Scotland.

1.11. Delivering a new Medium Term Financial Strategy over multiple years as a devolved government working within a UK framework is not straightforward. The Scottish Government does not have all the flexibility and levers available to the UK Government to manage and plan its finances. For example, while the Scottish Government has the power to set the rates and bands of income tax in Scotland – but not reliefs or exemptions, including the Personal Allowance – it has no power over setting the level of VAT and no control over all other reserved taxes (including Capital Gains Tax, Corporation Tax, National Insurance Contributions and Inheritance Tax), and its borrowing powers are severely limited. We have made a Programme for Government commitment to explore how responsibility for a broader range of taxes might enable the Scottish Parliament to take more balanced budget decisions, grow the economy and tackle poverty more effectively. We will provide an update on this work in autumn 2018.

1.12. The Scottish Government intends to publish a Medium Term Financial Strategy every year and expects that this new financial planning document will develop and evolve over time to include additional information. This document does not provide a detailed five year budget, nor will it provide detail at the individual portfolio level, as currently it is not possible to provide that level of budget certainty.

1.13. If you have comments on the content or the presentation of this document, we would be delighted to have them. Please contact the Finance Co-ordination Mailbox (finance.co-ordination@gov.scot).

2 The Scottish Budget and Fiscal Framework

How the Scottish Budget financial settlement has evolved

2.1. When a devolved government was first introduced in Scotland in 1999, it inherited funding arrangements driven by the long-standing Barnett formula. Under the Barnett formula, the Scottish Government's block grant each financial year is equal to the block grant baseline plus a population share of changes in UK Government spending on areas that are devolved to the Scottish Parliament. This mechanism continues to apply today to changes in UK Government spending on areas that are devolved to the Scottish Parliament. The detail of how the Barnett formula works is set out in the UK Government's Statement of Funding Policy[1].

2.2. The Scottish Government's budget is now determined through a combination of block grant funding from HM Treasury, adjusted to reflect forecasts of receipts generated through taxes devolved to Scotland (through the Scotland Acts 2012 and 2016) and the planned use of available devolved borrowing powers. The Scottish Government will retain all devolved and assigned Scottish tax revenues.

2.3. This means that the block grant is reduced to take account of the tax revenues raised in Scotland and no longer raised in the rest of the UK. This is done through a Block Grant Adjustment (BGA) mechanism which is set out in the Fiscal Framework.

2.4. It should be remembered that macroeconomic and monetary policy, and the overall public expenditure control framework, are reserved matters. This means that the UK Government's decisions on the envelope for public expenditure and its allocation between UK Departments are still a major determining factor in the overall funding available for Scottish devolved public spending.

2.5. Once overall public expenditure budgets have been determined in accordance with the Statement of Funding Policy and the Fiscal Framework, the Scottish Government has freedom to make its own tax decisions and spending decisions on devolved programmes, within the overall budgetary control totals set by HM Treasury and in compliance with the Consolidated Budgeting Guidance issued by HM Treasury.

2.6. The Scotland Acts 2012[2] and 2016[3] and the associated Fiscal Framework[4] change the sources of funding that support Scottish Government expenditure. Currently the revenue raising powers include:

- ***Income Tax*** – HM Revenue and Customs (HMRC) is responsible for the collection and management of income tax in Scotland and the rest of the UK. The Scotland Act 2016 gave the Scottish Parliament the power to set all income tax rates and bands (but not the power to determine any reliefs or exemptions, including the Personal Allowance) that apply to Scottish taxpayers' non-savings and non-dividend (NSND) income. On 20 February 2018 the Scottish Parliament set new income tax rates and bands for the new tax year 2018-19.[5]

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf

2 http://www.legislation.gov.uk/ukpga/2012/11/contents/enacted

3 http://www.legislation.gov.uk/ukpga/2016/11/contents/enacted

4 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/503481/fiscal_framework_agreement_25_feb_16_2.pdf

5 http://www.gov.scot/Resource/0053/00531596.pdf.

- ***Land and Buildings Transaction Tax*** – This replaced the UK Stamp Duty Land Tax in Scotland from 1 April 2015. The new Land and Buildings Transaction Tax (LBTT) is applied to residential and commercial land and buildings transactions in Scotland (including commercial purchases and commercial leases) where a chargeable interest is acquired. Revenue Scotland administers the collection of this tax.
- ***Scottish Landfill Tax*** – The Scottish Landfill Tax (SLfT) replaced the UK Landfill Tax in Scotland from 1 April 2015. Revenue Scotland administers the collection of this tax with support from the Scottish Environment Protection Agency.

2.7. Further tax raising powers still to be adopted by the Scottish Government include:

- ***Air Departure Tax*** – Following the Scotland Act 2016, the Scottish Parliament passed the Air Departure Tax (Scotland) Act 2017 which provides for Air Departure Tax (ADT). This will replace UK Air Passenger Duty (APD) in Scotland once the new tax is introduced. The Programme for Government 2017-18 reaffirmed the Scottish Government's commitment to reducing the overall burden of ADT by 50 per cent, and to abolishing the tax altogether when resources allow.

  The introduction of this new devolved tax has been deferred until the issues related to State aid and the Highlands and Islands exemption have been sufficiently resolved to avoid compromising the devolved powers. The Scottish Government and UK Government are working closely to find a solution.
- ***Aggregates Levy*** – This is a tax on the commercial exploitation of rock, sand and gravel. The Scotland Act 2016 gave the Scottish Parliament the power to legislate for a tax to replace the Aggregates Levy in Scotland. The UK tax has on-going domestic and EU legal issues around State aid which need to be resolved before the power can be commenced. The ability to set Aggregates Levy policy will provide opportunities to better integrate environment, planning and other policies within Scotland.
- ***Value Added Tax (VAT)*** – In Scotland, VAT is estimated to raise around £10 billion a year for the UK Government. The Scotland Act 2016 allows for receipts from the first 10p of the standard rate of VAT and the first 2.5p of the reduced rate of VAT in Scotland to be assigned to the Scottish Government. All VAT policy, including the power to set VAT rates, will remain reserved to the UK Government.

  Scottish assigned VAT is expected to be the second largest tax revenue, after income tax, for the Scottish Government. A transitional year for VAT assignment powers is expected to operate in 2019-20, and the Scottish Government's budget will face the fiscal impact of these measures from 2020-21.

2.8. The financial settlement continues to evolve to take account of changes being introduced. For example the social security forecasts which are set out in the Supplementary Financial Memorandum to the Social Security (Scotland) Bill show that by 2022-23, the Scottish Government will potentially receive a funding transfer of more than £3.5 billion from the UK Government to fund the delivery of the new social security benefits. Funding for existing benefits will be transferred through the Fiscal Framework. This level of funding assumes no changes to eligibility criteria and uprating policy by the UK Government. Future increases in social security demand and new policy choices will require to be funded from the Scottish Budget in the future.

How is the Scottish Government resource budget now calculated?

2.9. The Fiscal Framework sets the rules by which these new tax powers are implemented and managed. The key element of this is how the block grant is adjusted to account for the fact that the Scottish Budget is now funded to a greater extent through Scottish tax revenues.

2.10. An initial baseline adjustment is made for each tax. This is to compensate the UK Government for the tax revenue which is now being retained by the Scottish Government. This deduction is equal to the UK Government's receipts from the relevant tax generated in Scotland in the year immediately prior to devolution.

2.11. In subsequent years, the Block Grant Adjustments (BGAs) for each tax are updated to take account of changing UK Government tax revenue over time. The block grant is therefore adjusted in line with the change in corresponding UK Government tax revenues per head.

2.12. This means that if devolved Scottish tax revenues per head grow at the same rate as in the rest of the UK, the Scottish Budget will be no better or worse off than before devolution. This is because the amount being taken out through the Block Grant Adjustment is the same as the amount coming in through devolved tax revenues.

2.13. If per capita tax revenues grow faster in Scotland than the rest of the UK then the Scottish Budget is better off than would have been the case under pre-devolution funding arrangements, and vice versa. The reasons for this could reflect differences in economic performance in Scotland and the UK as well as different choices about tax policy.

2.14. The Scottish Budget is, therefore, now calculated as follows:

Barnett-determined block grant − **Adjustment to reflect rUK revenues foregone (BGA)** + **Revenues raised from devolved tax in Scotland** = **Scottish Budget**

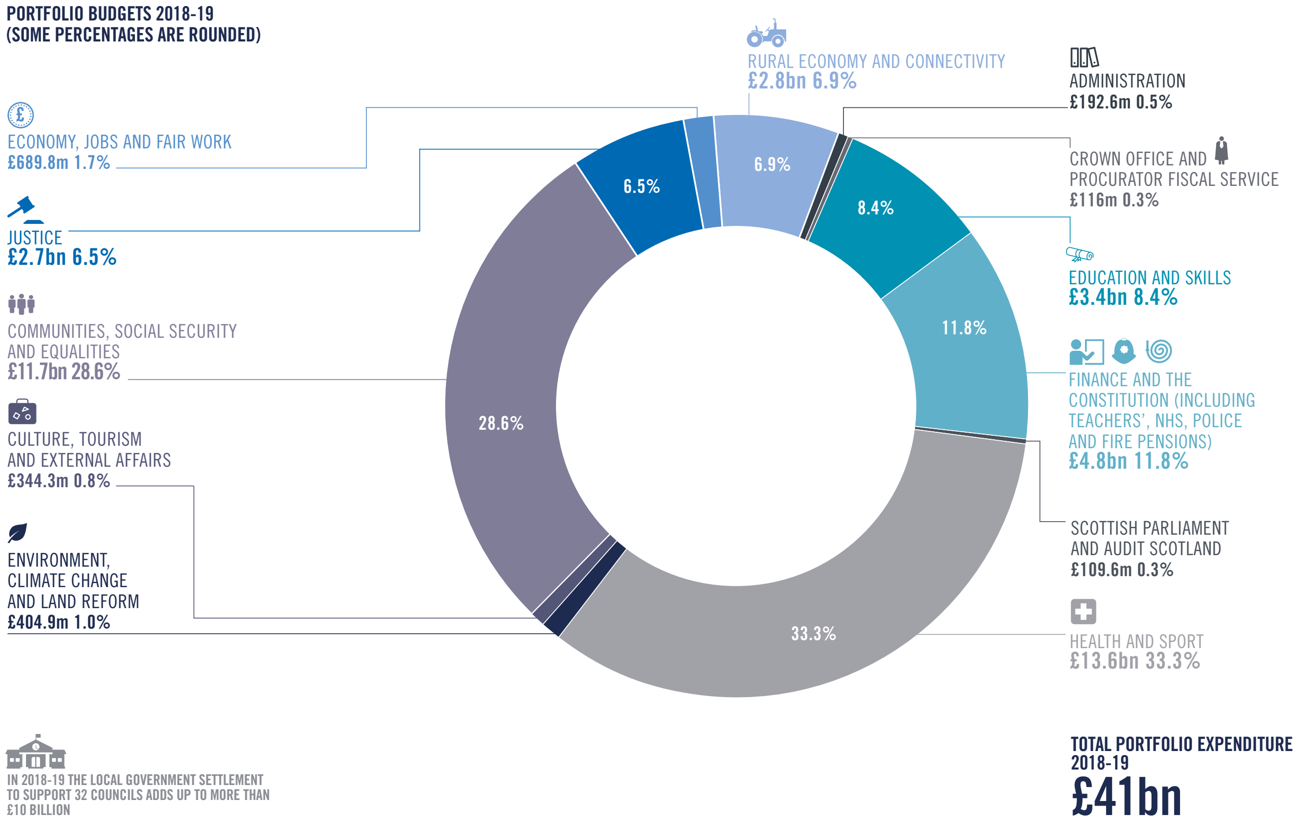
2.15. It is worth noting that Block Grant Adjustments are initially based on forecasts. Once outturn data is available, any difference between the forecast Block Grant Adjustment and the outturn Block Grant Adjustments will be applied to the Scottish Government block grant following the publication of outturn data. The exception is VAT, which relies on estimates of Scottish specific data, from survey data, as Scottish VAT cannot be identified separately without an unreasonable administrative burden on businesses.

2.16. It is recognised that these changes are new and need time to determine how they will work and best be implemented. It is therefore planned that an independent review of the current Fiscal Framework will be undertaken and that this review should be informed by an independent report with recommendations presented to both Governments by the end of 2021.

Key components of the Scottish Budget

2.17. The funding available to support the Scottish Budget consists of a number of elements: resource funding, capital funding, Financial Transactions from the UK Government through the residual block grant, and other sources of income including devolved taxes and non-domestic rates. Chart 2.1 illustrates the way in which the overall Scottish Budget (resource, capital and Financial Transactions) was allocated across Portfolios in 2018-19 – with the percentage share and budget amounts for the larger Portfolios.

CHART 2.1 – TOTAL PORTFOLIO BUDGETS FOR 2018-19



Resource budget

2.18. The resource budget funds spending on operating costs for public services. The resource budget has two elements: cash and non-cash. The cash element covers day-to-day spending, including staff pay, heating and lighting for schools, hospitals and other public buildings, support for front line public services and social security payments. This element of the budget is funded by a combination of the newly devolved taxes and the block grant.

2.19. The non-cash element of the resource budget is used to meet depreciation and particular accounting charges and is ring-fenced so it cannot be used for any other purpose. The budget projections in this document do not include any analysis of non-cash.

2.20. A small number of programmes, while they fall within the devolved responsibilities of the Scottish Government, are funded annually by the UK Government on the basis of demand (known as UK funded Annually Managed Expenditure (AME)). These budgets are ring-fenced for specific purposes – principally NHS and Teachers' pension payments and student loans. While the amounts for these areas are significant – NHS and Teachers pension costs alone are in excess of £2.5 billion per year – the UK funding mechanism means that these areas have no impact on the wider budget management of the Scottish Government. These areas are funded on the basis of the estimates of what we need and HM Treasury fiscal rules prohibit the use of funding provided for these areas to support other expenditure. Consequently, although these amounts are included in the total budget managed by the Scottish Government, they are not considered further in this publication.

2.21. Public sector pensions are clearly a significant future call on the public finances and an area of significant financial risks given the demographic changes expected in the medium and longer term. However, the mixture of reserved and devolved funding arrangements for the vast majority of central government pension liabilities in Scotland shares the risk between the Scottish and UK Governments. We are keeping pension liabilities in devolved areas under careful review.

Capital budget

2.22. Capital spending is money that is spent on maintenance of and investment in new assets that support and will create growth in the future. The Scottish Government capital budget plays an important role in funding major infrastructure projects in Scotland. When contracts are agreed for these, they become legal commitments which run over a number of financial years and impact on future budgets. The capital budget is funded from a combination of the block grant received from the UK Government, capital receipts (for example sale of land and buildings) and any capital borrowing undertaken by the Scottish Government.

2.23. The Scottish Government's Infrastructure Investment Programme includes both economic and social infrastructure and is defined as:

> "The physical and technical facilities, and fundamental systems necessary for the economy to function and to enable, sustain or enhance societal living conditions. These include the networks, connections and storage relating to enabling infrastructure of transport, energy, water, telecoms and internet, to permit the ready movement of people, goods and services. They include the built environment of housing; public infrastructure such as education, health, justice and cultural facilities; safety enhancement such as waste management or flood prevention; and public services such as emergency services and resilience."

2.24. The capital budget also funds expenditure on maintenance which enhances the economic life of existing assets and can also be used for financial assets such as investments and loans. Capital grants can also be used to enable other organisations, such as local authorities and registered social landlords, to fund their own capital programmes.

Financial Transactions

2.25. Financial Transactions (FTs) are a subset of capital funding from HM Treasury which were introduced in financial year 2012-13 and which can only be used to make loans to, or equity investments in, entities or individuals outside the public sector. FTs need to be repaid to the Scottish Government for onward repayment to HM Treasury. Agreement has been reached with HM Treasury that only 80 per cent of the total needs to be repaid, with the remainder available for recycling into other FT funded schemes. The most recent repayment schedule for FTs is illustrated in **Annex A**.

2.26. No interest is payable to HM Treasury by the Scottish Government for the repayment of FTs. Interest rates charged on FT schemes can vary and be at commercial or below market rates, depending on the purpose of the loan and compliance with State aid rules. The repayment period should be appropriate to the nature of the loan/investment and could be shorter or longer in duration.

Other sources of funding

Non-domestic rates

2.27. Non-domestic rates (NDR), also known as business rates, are a tax on non-domestic properties to help pay for local council services. They are charged on most non-domestic and commercial properties, including shops, offices, pubs and hotels.

2.28. This tax is collected and retained by local authorities, on behalf of the Scottish Government. The Scottish Government guarantees each local authority's needs-based formula share of the annual central government funding. This formula share is derived from a combination of the retained NDR income together with a general revenue grant paid by the Scottish Government.

2.29. The operation of the Non-Domestic Rate Account is set out in Schedule 12 of the Local Government Finance Act of 1992. The legislation requires that Ministers set a distributable amount of NDR income for any year in the annual Local Government Finance Order, which is issued in advance of the start of the financial year to which it relates.

2.30. The distributable amount is set with reference to the forecast NDR income to be collected for the year and the accumulated balance on the NDR account. From 2018-19 the Scottish Fiscal Commission (SFC) is responsible for preparing the forecast for NDR income to be collected. The forecast of the likely NDR income for the year is developed based on a number of factors (including the impact of a revaluation, an assessment of likely successful appeals losses, the level at which the poundage is set and the package of reliefs that Ministers wish to put in place). The distributable amount is based on that forecast, the accumulated balance in the NDR account and the overall financial outlook for the Scottish Budget.

2.31. The estimate of NDR income is unlikely to equal the amount actually collected for that year by local authorities, as a range of factors will influence the final receipts (e.g. economic growth may be higher/lower than forecast or successful appeals may be more/less than forecast). A statement of the NDR account is published annually in accordance with legislative requirements.

2.32. The Scottish Government is committed to keeping the NDR Account in balance over time. The impact of variations in forecast, against actual receipts, when compared with the distributable amount, can be expected to give rise to individual surpluses or deficits at times.

2.33. Details of the amounts of NDR income estimated to be collected and distributed, together with the calculation of the amount to be distributed, are published in the annual Scottish Budget.

Fees and charges

2.34. Charging for public services is a feature of the public sector landscape across the world, and is particularly important in the delivery of services provided by local authorities and public bodies.

2.35. Where it is well targeted and designed, charging can be an integral part of a progressive approach to the delivery of public services, reducing the burdens on taxpayers and encouraging the type of behaviours that we would want to see as a progressive society, particularly in relation to environmental behaviours. For example, the Scottish Government is setting up an expert panel to advise on the use of fees and charges to manage materials which are difficult to collect and recycle and which cause significant environmental impacts.

2.36. The Scottish Government, in consultation with local government partners and public bodies will continue to consider the role of fees and charges in a progressive approach to delivery of public services.

The Scottish Budget process

2.37. There are a number of important steps in the budget setting process. The resources managed by the Scottish Government must be authorised by a Budget Act agreed by the Scottish Parliament. The Scottish Fiscal Commission also has a crucial role to play here in accurately forecasting future income in Scotland from devolved taxes and expenditure on devolved social security.

2.38. The principles and procedures for the annual budgeting process, the format of the budget documents and procedures for in-year reallocation of budgetary provision are the subject of a Written Agreement between the Scottish Government and the Scottish Parliament Finance and Constitution Committee – which was agreed by the Scottish Parliament on 8 May 2018.

2.39. Under the full Scotland Act 2016 powers, the Scottish Parliament will ultimately be responsible for agreeing around £21 billion in devolved and assigned tax revenue and over £3.5 billion in devolved social security spending. To enable the Scottish Government to manage the additional risks and volatility associated with the devolution of these powers, the Fiscal Framework set out a limited set of fiscal tools available to it. These are explained further in Chapter 3.

2.40. In recent years the Scottish Government has delivered a series of annual budgets, an approach which will continue for the 2019-20 budget process, the last year of the current UK Spending Review period. There is an expectation that the next UK Spending Review (in 2019) will offer sufficient multi-year budget information to provide the Scottish Government with the opportunity to develop a multi-year approach to the development of its budgets.

Other factors which affect the Scottish Budget

2.41. In addition to spending decisions by the UK Government at the UK Autumn Budget that will impact on the Scottish Budget via Barnett consequentials, there are other factors which will have consequences for the Scottish Government's budget. These include:

- **Reconciliations of forecasts to outturn** – Block Grant Adjustments are initially based on forecasts by the UK Government Office for Budget Responsibility of corresponding UK tax receipts and expenditure in the rest of the UK. Once outturn data is available, any difference from the forecast figure will be applied to the Scottish block grant in the subsequent Scottish Budget. For the fully devolved taxes, outturn data is available around six months after the financial year and for income tax, outturn data is available around 15 months after the financial year.

  For income tax, there is a further reconciliation applied to the block grant to account for any difference between the Scottish Fiscal Commission income tax forecast used at the budget for the relevant financial year and final HMRC outturn for Scottish income tax. In effect, it is therefore the net difference between this reconciliation and the income tax BGA reconciliation outlined above that will have an impact on the Scottish Budget.

- **Land and Buildings Transaction Tax and Scottish Landfill Tax** – The Scottish Government receives these receipts during the financial year from Revenue Scotland as they are collected. There is therefore no need for a reconciliation. However, any variance from forecast amounts is managed within the year as part of the overall budget management strategy.
- **Tax policy changes by the UK Government at the Autumn Budget** – Policy changes made by the UK Government to taxes that are devolved to Scotland will feed through to the Scottish Budget via adjustments to the block grant.

The role of the Scottish Fiscal Commission

2.42. The Scottish Fiscal Commission was established on a statutory basis from 1 April 2017 under the Scottish Fiscal Commission Act 2016. The Commission is structurally and operationally independent of the Scottish Government. Commissioners are accountable to and give evidence to the Scottish Parliament as required.

2.43. The Commission produces, twice yearly, independent forecasts of:

- Revenue from fully devolved taxes;
- Non-savings, non-dividend income tax receipts;
- Onshore Gross Domestic Product (GDP) in Scotland; and
- Expenditure on devolved social security benefits.

2.44. The Commission is also responsible for setting out its assessment of the reasonableness of the Scottish Government's projections of borrowing requirements.

2.45. Under the Fiscal Framework arrangements, the independent forecasts by the Commission have a crucial role in helping the Scottish Government plan its expenditure. For example, these forecasts are vitally important in developing the annual budget and this new Medium Term Financial Strategy by forecasting what the future likely income will be for the Scottish Government over the next five years as well as expenditure on social security.

3 Financial Management and Fiscal Rules

3.1. The Fiscal Framework is an agreement between the Scottish and UK Governments that determines how the Scottish Government is funded. This agreement will be reviewed in 2021, following the first five years of its operation.

3.2. The funding model agreed in the Fiscal Framework provides a transparent mechanism to adjust the Scottish Government block grant to reflect the introduction of newly devolved revenues and the transfer of additional responsibilities, such as social security, to the Scottish Government. The Fiscal Framework gives the Scottish Government access to resource and capital borrowing powers to ensure budgetary stability and manage the volatility associated with greater revenue-raising powers. Within the Framework the Scottish Government is also permitted to operate a (limited) Scotland Reserve.

3.3. This Chapter describes the range of fiscal rules and financial management mechanisms available in more detail and explains how the Scottish Government is using them.

Capital borrowing

3.4. The Scottish Government's capital borrowing powers were originally granted in the Scotland Act 2012 and the limits were increased in the Scotland Act 2016. In addition to the capital block grant, the Scottish Government can increase capital expenditure through borrowing up to £450 million per year up to a maximum total of £3 billion under the provisions of the Scotland Act 2016. These capital borrowing limits came into effect for the Scottish Government on 1 April 2017.

3.5. The Scottish Government may borrow from the UK Government through the National Loans Fund, by way of a commercial loan (directly from a bank or other lender) or by issuing bonds. Where borrowing is through the UK Government, repayment arrangements are set out in a Memorandum of Understanding between the Scottish Government and UK Government.

3.6. Capital borrowing powers have been used in each year to date to support the capital investment programme and promote economic growth in Scotland. The Scottish Government agreed a notional borrowing arrangement with HM Treasury in 2015-16 and 2016-17 as part of managing the budgetary impact of Office for National Statistics classification decisions on a number of Non-Profit Distributing (NPD) projects, including the Aberdeen Western Peripheral Route. As a result, the amounts recorded against borrowing limits for those years are notionally repaid over 30 years (linked to the life of the underlying NPD contracts). This notional borrowing arrangement counts towards the overall capital borrowing cap, but does not have a cash impact on the Scottish Budget.

3.7. The Fiscal Framework requires the Scottish Government to notify HM Treasury each month of its planned capital borrowing, its outstanding debt and its debt repayment profile. The Scottish Government is able to borrow within the agreed limits as it deems appropriate.

3.8. The Scottish Government has to date borrowed exclusively from the UK Government. The 2018-19 Scottish Budget plans to make full use of the £450 million capital borrowing powers available to maximise infrastructure investment and economic impact. Final decisions on the specific borrowing arrangements for 2018-19 will be taken over the course of the year, reflecting an on-going assessment of programme requirements and value for money assessment of the options available.

3.9. This document models the impact of one further full year of capital borrowing in 2019-20, but final decisions on future borrowing levels will be taken as part of the 2019-20 budget and subsequent budget processes. These decisions will be taken annually in light of the economic outlook at the time, weighing the cost of borrowing and the opportunity cost of using up more of the overall £3 billion borrowing limit against the potential benefits of economic stimulus.

3.10. Table 3.1 (below) sets out the capital borrowing and repayments, based upon capital borrowing undertaken to date, plus planned borrowing of a further £450 million in 2019-20.

TABLE 3.1 – CAPITAL BORROWING AND REPAYMENTS

£m	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Borrowing	283	333	450	450	450	-	-	-
Repayment on 2015-16 borrowing	-	9	9	9	9	9	9	9
Repayment on 2016-17 borrowing	-	-	11	11	11	11	11	11
Repayment on 2017-18 borrowing	-	-	-	7	14	15	15	15
Repayment on 2018-19 borrowing	-	-	-	-	7	14	15	15
Repayment on 2019-20 borrowing	-	-	-	-	-	7	14	15
Total Annual Repayments*	**-**	**9**	**21**	**27**	**41**	**56**	**64**	**65**
Repayment period for borrowing (years)	30	30	25	25	25	-	-	-

Note 1: *This reflects the repayment of the principal loan and in addition there will be interest costs to meet (at around 2% for borrowing to date).

Note 2: Figures may not sum due to rounding.

3.11. The affordability and sustainability of all Scottish Government long-term revenue commitments, including repayment of debt stock, are assessed through the budget process and are kept within a maximum of 5 per cent of the total annual budget available.

3.12. The Scottish Fiscal Commission has a duty to assess the reasonableness of Scottish Government projections of borrowing in its economic forecasts. To date the Commission has assessed the borrowing projections as reasonable.

3.13. Local authorities also have the power to borrow under the Local Government (Scotland) Act 1975 which defines the purposes for which local authorities may borrow, meaning that they can only borrow for capital expenditure. Capital borrowing by local authorities sits outside the Scottish Budget.

3.14. The amount of borrowing that a local authority can undertake is regulated by the Prudential Code under which authorities determine the maximum amount that they can afford to borrow based on a series of indicators such as affordability, prudence and sustainability.

Overall affordability of capital investment

3.15. The Scottish Government is committed to ensuring that revenue-funded methods of investment are maintained at a sustainable level and do not constrain choices in future years.

3.16. The Scottish Government uses a self-imposed limit to ensure that revenue-funded investment – including repayment of capital borrowing under the new powers – will not exceed 5 per cent of the total annual budget available.

3.17. Under current plans and arrangements, committed Scottish Government projects are estimated to peak in 2019-20 at 3.88 per cent. When planned projects, which are not yet contractually committed, and planned borrowing in 2018-19 and 2019-20 are included, this increases to 4.23 per cent in 2020-21. These investments are consistently monitored and the Scottish Budget documents include an analysis of the performance against this 5 per cent limit. Table 3.2 illustrates revenue commitments as a percentage of the annual total budget available for the years 2018-19 to 2022-23.

TABLE 3.2 – REVENUE COMMITMENTS AS A PERCENTAGE OF THE ANNUAL TOTAL BUDGET

	2018-19	2019-20	2020-21	2021-22	2022-23
Committed projects	3.63%	3.88%	3.79%	3.71%	3.59%
Committed projects plus planned projects and planned borrowing	3.74%	4.11%	4.23%	4.17%	4.04%

3.18. Table 3.3 splits out the commitments and planned commitments into the different categories of revenue-funded investment.

TABLE 3.3 – BREAKDOWN OF COMMITTED PROJECTS PLUS PLANNED PROJECTS AND PLANNED BORROWING INTO CATEGORIES (%)

	2018-19	2019-20	2020-21	2021-22	2022-23
PPP/PFI	1.94%	1.93%	1.85%	1.81%	1.72%
NPD/Hub	0.63%	0.67%	0.80%	0.81%	0.80%
Network Rail Borrowing – RAB	1.06%	1.30%	1.30%	1.28%	1.25%
Capital Borrowing	0.11%	0.21%	0.28%	0.27%	0.27%
Total	**3.74%**	**4.11%**	**4.23%**	**4.17%**	**4.04%**

3.19. Committed projects are those where a contract has been signed. The assets will therefore be under construction, or the project is operational. Committed projects also include the Scottish Government's share of the revenue costs of PFI projects (which are completed and in operation) and the five pre-pipeline NPD projects. Unitary charges usually include on-going maintenance commitments over the project life, as well as costs associated with project construction and financing. Costs associated with planned projects and investments are those where a contract is not yet signed.

3.20. It should be noted that, following the reclassification of Network Rail from a private to a public sector organisation, the funding regime will change from 2019-20 and rail projects will become entirely grant-funded. This will change the way the 5 per cent limit takes account of rail projects which are currently revenue-financed.

3.21. In the interests of maintaining comparability, current modelling of commitments contains estimates of the Network Rail investment as if it had been Regulatory Asset Base (RAB) funded. The Scottish Government is therefore currently reviewing this approach to reflect the new and more complex fiscal environment.

Resource borrowing

3.22. The Scotland Act 2012 gave the Scottish Government access to a resource borrowing facility of up to £200 million per year within a statutory overall limit for resource borrowing of £500 million. This could be used to meet any in-year excess in expenditure over income.

3.23. The Scotland Act 2016 extended this facility to enable the Scottish Government to borrow from the National Loans Fund in certain situations where there are specific cash management challenges. The Scottish Government now has the power to borrow up to £600 million each year within a statutory overall limit for resource borrowing of £1.75 billion, for the following reasons:

- in-year cash management, with an annual limit of £500 million;
- forecast error on devolved and assigned taxes, and on devolved social security expenditure, arising from forecasts of Scottish receipts/expenditure and corresponding UK forecasts for the Block Grant Adjustments, with an annual limit of £300 million; and
- observed or forecast shortfall in devolved or assigned tax receipts or devolved social security expenditure incurred where there is, or is forecast to be, a Scotland-specific economic shock, with an annual limit of £600 million.

3.24. It is important to note that if an economic shock occurs it is not possible for the Scottish Government to apply resource borrowing to provide an economic stimulus – only to meet a shortfall in tax receipts or demand-led social security spending.

3.25. These enhanced borrowing powers came into force from 2017-18 onwards. All resource borrowing must be from the National Loans Fund and the repayment period must be between three and five years, to be determined by the Scottish Government at the time of borrowing. The Scottish Government is required to provide regular monthly forecasts to HM Treasury of the amount of resource borrowing it expects to make, outstanding debt and repayment profiles and can borrow within the agreed limits as deemed appropriate.

3.26. The resource borrowing power is deliberately restricted to very specific circumstances and does not detract from the fundamental requirement for a balanced Scottish Budget each financial year. If circumstances arise where the conditions to allow resource borrowing become available, the Scottish Government will make a decision on whether and how to use it based on the overall situation at the time.

3.27. A decision will depend on assessing the impact of resource borrowing, including the repayments over future financial years, against the impact of taking other steps, such as reducing expenditure in-year or using money available in the Scotland Reserve.

Scotland Reserve

3.28. The Scotland Act 2016 replaced a previous power under the Scotland Act 2012 to operate a limited cash reserve. This can be used to build up funds when devolved revenues are higher than forecast and to drawdown funds when devolved revenues are lower than forecast. The Scotland Reserve replaced the previous Budget Exchange provisions set out in the Consolidated Budgeting Guidance.

3.29. The Scotland Reserve allows the Scottish Government to smooth all types of spending and is intended to assist the management of tax volatility and to determine the timing of expenditure. The Scotland Reserve applied from 2017-18 onwards and is split between resource and capital.

3.30. The Reserve is capped in aggregate at £700 million, or only 2.2 per cent of the total Scottish Budget in 2018-19, which falls to 1.8 per cent in 2022-23, based on the central projection in this document. Annual drawdowns from the Reserve are limited to £250 million for resource and £100 million for capital.

3.31. The Scotland Reserve is now the mechanism by which any underspend in the Scottish Budget can be carried forward to be used in a subsequent financial year. In recent years, with very tight financial management, underspend has been low, less than 1 per cent of the total discretionary budget, but even so, managing money across financial years is likely to use up a substantial proportion of the £250 million resource and £100 million capital limits. This very severely restricts the Scottish Government's ability to build up a reserve and draw down from it.

3.32. The balance in the Scotland Reserve at the start of 2017-18 was £74 million. The closing balance on the Reserve for 2017-18 will be reported as part of the provisional outturn statement to the Scottish Parliament in June 2018. Spending plans for 2018-19 anticipate around £230 million of expenditure that will be funded from carry forward from 2017-18, which will be managed through the Scotland Reserve.

3.33. The Scottish Government intends to build up the balance in the Scotland Reserve over time as resources allow, in order to have a financial cushion available, while ensuring that there remains sufficient capacity in the Reserve to prudently manage any underspend across financial years.

Effective financial management and reporting

3.34. The Public Finance and Accountability (Scotland) Act 2000 provides for the use of resources by the Scottish Government (and other directly funded bodies) and sets out accountability arrangements for management of those resources. The Scottish Public Finance Manual[6] (SPFM) is issued by the Scottish Government to provide guidance to itself and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, Parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Economic intervention and investment

3.35. The Scottish Government's consideration of any investment or significant financial decision follows the principles and procedures of the SPFM to ensure the regularity, propriety and value for money of the use of resources.

3.36. This includes:

- preparing and refining a business case to ensure that proposals are in line with strategic objectives, the evaluation of options, detailed analysis of costs and benefits and all relevant commercial and financial considerations, including the affordability and balance of risks of the proposal;
- carrying out due diligence to substantiate the assessment where relevant;
- acting within EU State aid rules; and
- where appropriate, consultation with and scrutiny from the Scottish Parliament.

3.37. Before entering into any form of agreement giving rise to a contingent liability, for example a guarantee or indemnity, the SPFM requires a careful appraisal of the risks, with steps to be taken to restrict the total contingent liability to a minimum. All such arrangements are monitored as part of regular financial management activity.

Developing financial reporting – tailored for Scotland consolidated public accounts

3.38. While the Scottish Government already publishes a range of financial and economic information, it is continuing to develop its approaches. Working with financial year 2016-17 as a shadow year, the Scottish Government has collected the necessary information to support further reporting outputs. This brings together the financial information of all sectors of the devolved public sector in Scotland, including public bodies and local government, and has established a process for the 2017-18 financial year.

3.39. The Scottish Government is currently considering options for the presentation of this information, with the focus being to minimise the burden on Scottish public bodies and ensure that what is produced is useful and adds value. As part of this process, the Scottish Government will be engaging with Audit Scotland.

6 http://www.gov.scot/Topics/Government/Finance/spfm/Intro

4 Role of the UK Government

4.1. While the Scottish Parliament now has expanded powers, the UK Government retains a central role in determining both the size of the Scottish Budget and the overall economic climate. This is because key economic levers remain reserved to Westminster – monetary policy, macroeconomic policy and the majority of tax powers. Control over migration policy, which has a major impact on the economy, is also reserved.

4.2. Responsibility for tax policy and the economy are shared between the Scottish and UK Governments. This document outlines the Scottish Government's approach to sustainably managing Scotland's finances. Where decisions taken by the UK Government have an impact on Scotland's economy and public finances, we will continue to engage constructively with the UK Government to reduce any detriment to Scotland.

Current UK Government fiscal policy

4.3. Through the Fiscal Framework, the UK Government sets the overall funding envelope that is available to Scotland. While new powers allow the Scottish Parliament to use its taxation powers to increase or decrease the budget available, the starting point for the Scottish Budget is still determined by the size of the block grant.

4.4. This has been particularly challenging over the last decade with the UK Government's approach to austerity. This has meant that in real terms over the ten years to 2019-20 the Scottish Government's discretionary budget allocation will have been cut by over 9 per cent (£2.6 billion).

4.5. Managing difficult financial circumstances is the job of Government, which is why during the development of the 2018-19 Budget the decision was taken by the Scottish Government to introduce a five band income tax policy to generate additional revenues and reverse the real terms cut to the budget imposed by the UK Government.

4.6. The Scottish Government is committed to investing in our public services and our infrastructure and has continually urged the UK Government to change its course on austerity to provide the resources that our public services need.

4.7. A particular concern is how the UK Government's austerity policies disproportionately affect the most disadvantaged individuals. For example, the Resolution Foundation[7] estimates that the UK Government's policies will leave the poorest third of households an average of £745 a year worse off by 2022-23.

4.8. Social security changes that came into effect in April 2018 are being imposed on some of the most vulnerable sectors of society. The Resolution Foundation has estimated that 2018-19 is set to be the second biggest single year of social security cuts, with £2.5 billion of cuts expected.

7 https://www.resolutionfoundation.org/app/uploads/2018/03/Spring-Statement-response.pdf

4.9. The Scottish Government is fully committed to supporting and protecting these vulnerable populations and has made available £62 million in 2018-19 to local authorities to:

- fully mitigate the bedroom tax for more than 70,000 households;
- help mitigate other UK Government policies such as the Benefit Cap and Local Housing Allowance rates; and
- support those on low incomes.

4.10. Despite the UK fiscal deficit having now returned to pre-crisis levels, the UK Government is planning for further tax rises and spending cuts until the middle of the next decade. This objective is underpinned by the UK Government's fiscal rules to:

- reduce the structural deficit to below 2 per cent of GDP by 2020-21;
- have net debt as a percentage of GDP falling in 2020-21; and
- return the public finances to balance at the "earliest possible date in the next Parliament", currently assumed to be 2025-26.

4.11. To achieve these targets, the UK Government plans to continue with its programme of tax rises and spending cuts over the coming years. It is estimated that the UK Government's current plans aim to reduce the structural deficit by 6 per cent of GDP, or around £120 billion in today's terms.

4.12. The latest forecasts from the Office for Budget Responsibility show that the scale of the tax rises and spending cuts planned by the UK Government mean that it is on course to not just meet its first two fiscal targets in 2020-21[8] but to go beyond them. The UK Government can therefore meet these fiscal objectives while reversing some of the spending cuts that are currently planned. As a broad illustration:

- this could provide approximately £60 billion of additional investment over the five year period to 2022-23, compared to current UK Budget plans, as set out at the Spring Statement. This in turn would make an additional £5 billion of investment available for Scotland over this period, compared to current UK Budget plans;
- alternatively, the UK Government could also adopt a more gradual deficit reduction which strikes a better balance between ensuring the sustainability of the UK public finances and investing in the public services which are vital to supporting households and long-term economic growth. As outlined in **Annex C**, such an approach could potentially provide an additional £7 billion in investment for Scottish public services relative to current plans.

8 See OBR March 2018 Economic and Fiscal Outlook: http://cdn.obr.uk/EFO-MaRch_2018.pdf page 185.

4.13. The UK Government therefore has flexibility to meet its fiscal objectives without implementing in full the spending cuts that are currently planned for the coming years. Were the UK Government to use some of this fiscal headroom, this could result in billions of investment in our vital public services in Scotland.

4.14. While the central budget forecasts in this document have to be based on the UK Government fiscal rules and therefore upon a continuation of UK Government austerity, it is clear that austerity is a choice made by the UK Government rather than an economic necessity.

Immigration

4.15. In considering the financial outlook for this new document, it is important to reflect on the key fact that population growth has been the most significant driver of GDP growth in both Scotland and the UK in recent years.

4.16. The strategic importance of population growth to Scotland's economy has been recognised since 2007 in the National Performance Framework. The Purpose Target to match average European (EU15) population growth over the period 2007 to 2017 has been met – statistics published in April 2018 confirm that Scotland's population grew slightly faster than the EU15 average over the last 10 years, closing the previous gap between Scotland and the EU15 in relation to population growth.

4.17. International migration has been the largest contributor to Scotland's population growth over the past 10 years, and to a greater extent than in any other part of the UK. The most recent population projections from National Records of Scotland indicate that all of Scotland's population growth over the next 25 years is expected to come from migration (from both overseas and the rest of the UK). Therefore migration is essential for Scotland and is particularly important given the prospect of more projected deaths than births in Scotland every year from now on.

4.18. The age profile of the population will also change. The proportion of the population of state pension age will increase by 25 per cent over the next 25 years. People aged 75 and over are projected to be the fastest growing age group in Scotland, increasing by 79 per cent over the same period.

4.19. At the same time as we expect to see these large increases in the proportion of the population of pensionable age, the working age population will grow only slightly, by around 1 per cent over the next 25 years.

4.20. All of this creates challenging future population demographics for Scotland.

4.21. The Scottish Fiscal Commission, in its first Economic and Fiscal Forecasts published in December 2017[9], observes that "the size of the population aged 16 to 64, which makes up most of the working age population, is very important for the economy and public finances. These individuals are more likely to be working and will be generating the highest tax receipts, for example, in income tax."

9 http://www.fiscalcommission.scot/media/1196/scotlands-economic-fiscal-forecasts-publication.pdf

4.22. In variant population projections, where migration is reduced, the proportion of working age people in the population begins to decline. For example, in the scenario where projected migration from the EU is cut by half, the proportion of the population of working age falls by 0.8 per cent over the next 25 years.

4.23. Migration is crucial to help grow our working age population, but the impact of the UK's exit from the EU, the prospect of future restrictions on migration from the EU, and the 'hostile environment' policy of the UK Government all exacerbate the challenge and inhibit Scotland's population growth.

4.24. That has a direct impact on our economic prospects. The long-term impact on the economy of lower migration, as a result of the UK's exit from the EU, was set out in our recent paper *"Scotland's population needs and migration policy: Discussion paper on evidence, policy and powers for the Scottish Parliament"*.[10] The 'Brexit' effect of reduced migration could reduce Scotland's GDP by 4.5 per cent per year by 2040 – equivalent to a fall of almost £5 billion a year. That is a more significant reduction than the rest of the UK will face, where real GDP could be 3.7 per cent lower by 2040 as a result of an EU exit-driven reduction in migration. The proportionately larger impact on Scotland is equivalent to £1.2 billion per year by 2040.

4.25. If the UK Government achieves its arbitrary net migration target, to reduce net migration to the 'tens of thousands', the economic impact would be even more extreme. Using a low migration variant of the population projections, where net migration to the UK is assumed to be +85,000 per year in the long-term, real GDP in Scotland could be 9.3 per cent lower by 2040, or £10.2 billion of lost GDP.

4.26. This provides a compelling economic case for why Scotland needs a tailored approach to migration, particularly in the context of an evolving devolution settlement where the Scottish Parliament now has significant new powers in relation to taxation. The downside risks of immigration policies decided by the UK Government, and not supported by any party in the Scottish Parliament, have significant consequences for Scottish areas of devolved responsibility.

UK exit from the EU

4.27. The prospect of the UK leaving the European Union has created huge and significant uncertainties for the Scottish Government, the public sector, businesses and families.

4.28. While the outcome of the negotiations on the UK's departure from the EU is not yet known, both the Scottish Fiscal Commission and the Office for Budget Responsibility expect it to have a negative impact on the economy. This is due to the uncertainty created by the negotiations, and the anticipated outcome of the final settlement, which is expected to reduce growth in trade and limit immigration.

4.29. The actual impact on the Scottish Budget will depend on future UK Government spending decisions and the relative impact on Scottish and UK tax receipts. Changes in UK Government spending will directly affect the Scottish Budget through the Barnett formula.

10 http://www.gov.scot/Resource/0053/00531087.pdf

4.30. The uncertainty over a UK exit from the EU – with no clearly agreed path in terms of our on-going access to key EU markets – is hampering economic growth and investment. The UK Government pursuit of a hard exit will undermine Scotland's economic prospects by creating significant impediments to trade in good and, in particular, services. Our paper "Scotland's Place in Europe: People, Jobs and Investment" showed that the pursuit of a hard exit will damage the Scottish economy and risk jobs and investment. A hard exit threatens to cost our economy £12.7 billion (£2,300 per person) a year by 2030, compared to remaining in the EU.

4.31. An EU exit which results in the UK being outside the European Single Market and Customs Union will have the most damaging consequences for Scotland. The EU is the largest single market for Scotland's international exports, with exports worth £12.7 billion in 2016 supporting directly and indirectly hundreds of thousands of jobs across Scotland.

4.32. Outside the Single Market we would also miss out on new measures in services and digital, for example, estimated to be worth an additional 2.4 per cent of EU GDP. The equivalent for Scottish GDP would be £3.6 billion, or £668 per person.

4.33. It is therefore clear that membership of the Single Market and Customs Union is the only way to allow the continued level of EU market integration that is so critical to the future of the economy.

4.34. Membership of the European Union also allows direct access to EU funding programmes, worth over £5 billion in the current 2014-20 EU budget round. Outside of the European Union, access to these funding streams is not guaranteed, creating significant uncertainty for those who are reliant on them.

Funding disputes

4.35. In recent years, the Scottish Government has also been pursuing a number of funding discussions with the UK Government in relation to issues such as the backdating of Police and Fire VAT; the funding deal that the UK Government reached with the Democratic Unionist Party (and the consequences of that for the rest of the UK); future levels of Network Rail funding; and funding to support the preparation for the UK Government's decision to leave the European Union – which taken together represent over £3 billion of potential funding.

4.36. Clearly all of these topics have a bearing on the overall level of funding available to the Scottish Government and a positive resolution to these would provide additional funding to support public services in Scotland.

5 Investing in Our Economy

5.1. Support for the economy is key to our efforts to ensure financial stability and maximise the resources available for our public services. Our ambition is to build a modern, dynamic, open economy which benefits everyone in Scotland. The 2017 Programme for Government puts transforming Scotland's economy at the heart of everything this Government does, including the way in which we plan, utilise and allocate our available financial resources.

5.2. In line with this, we have an ambitious programme of infrastructure investment for 2018-19 of more than £4 billion and £20 billion over the life of this Parliament. Our investment strategy is set out in our Infrastructure Investment Plan, with sustainable economic growth through increasing competitiveness and supporting employment opportunities for all included in our guiding principles for investment. We recognise that both economic and social infrastructure help the productive capacity of the economy in both the short term through employment effects, and also in the longer term by improving productivity. We are therefore using all of the levers at our disposal to maximise investment to support economic growth and ensuring that spending is targeted as effectively as possible.

5.3. Capital expenditure in the Scottish Budget in 2018-19 is estimated to support around 22,000 Full Time Equivalent (FTE) jobs directly. In total, when supply chain and re-spending of wages are taken into account, the entire Scottish capital budget for 2018-19 is estimated to support around 40,000 FTE jobs and contribute £2.3 billion to Scottish GDP.

5.4. When the indirect effects arising from this are considered, this expenditure is estimated to support a further 11,000 FTE jobs through supplier industries in the wider Scottish economy. This means that an additional 6,000 FTE jobs are supported through the 'induced' effects, as a result of the re-spending of wages.

Supporting business growth through business rates

5.5. The non-domestic rates system has a key role to play in delivering sustainable economic growth through the direct impact on the operating costs of businesses and on the totality of resources available to fund public services. The Barclay Review of non-domestic rates was established to deliver a rates system designed to better support business growth, long-term investment and reflect changing market places. The subsequent recommendations include measures to support growth, to improve administration of the system and to increase fairness.

5.6. While responding to the Barclay Review, the Scottish Budget delivered the most attractive package of non-domestic rates in the UK. The Budget delivered the number one ask of Scottish businesses by capping the business rates uplift at the consumer price index (CPI) rather than the retail price index (RPI). It supported the most competitive reliefs package in the UK, worth a record £720 million, up from £660 million in 2017-18, and maintained the Small Business Bonus Scheme with the maximum savings achievable through the scheme increasing to £7,200.

5.7. Having been introduced in April 2018, the Business Growth Accelerator will encourage new business investment by temporarily suspending rates liabilities and the Day Nurseries relief will reduce the overheads to nursery providers who have such an important role to play in ensuring our children have the best start in life. These recommendations were delivered as quickly as possible following the Programme for Government and are unique across the UK.

5.8. Scotland's Economic Strategy[11] sets out an overarching framework for how we aim to achieve a more productive, more cohesive and fairer Scotland. Our Economic Strategy has made clear that the questions of tackling inequality and securing economic growth are not mutually exclusive. That is why inclusive growth is central to our Economic Strategy – it aims to increase productivity and reduce inequality through fostering innovation, increasing investment and promoting internationalisation.

5.9. Scotland's economy continues to show resilience but it faces challenges of demographic change, technological advances and preparing our workforce for the jobs of the future. The UK's exit from the EU continues to provide serious economic headwinds and our economy continues to show the impacts of years of austerity. But we know we can and must do more to secure growth for everyone in Scotland, no matter their background or where they live.

Fair Work and pay

5.10. In creating the conditions for a more productive, more cohesive and fairer Scotland, the Scottish Government is doing everything it can to promote fair working practices.

5.11. The past 30 years have seen a marked narrowing of the priorities of many private sector companies. An increasing emphasis on short-term profit and shareholder return has promoted a business model which rewards the minimisation of labour costs. This situation has led to the imbalance in shared benefit of enterprise, and some unwelcome developments such as greater job insecurity, poor contracting through the inappropriate use of zero-hours contracts, underemployment and poverty pay – all of which reinforce cycles of inequality.

5.12. Despite the challenge of employment law being reserved to the UK Government, the Scottish Government is determined to take action to improve these working practices and promote, champion and to support a Fair Work approach.

5.13. Fair Work sits at the intersection between economic and social policy and is central to the Scottish Government's twin goals of boosting competitiveness and tackling inequality. Increasing the quality of jobs has wider social benefits beyond productivity and tax.

5.14. Fair Work has demonstrable benefits to:

- health;
- skills development;
- reducing inequalities; and
- can support greater innovation in our businesses.

5.15. As a Government we are at the forefront of the promotion of Fair Work through measures including the promotion of the Living Wage, the creation of the Fair Work Convention, our approach to procurement, and the delivery of the Business Pledge.

11 Scotland's Economic Strategy 2015

5.16. As a key part of driving forward Fair Work and promoting fair working practices, the Scottish Government is actively championing the real Living Wage to help ensure that people's basic pay meets the cost of living. We have achieved our target of reaching 1,000 accredited employers by autumn 2017, are the first Government of the home nations to be Living Wage accredited and are actively promoting the payment of the 'real' Living Wage to those working on government contracts. All these actions help ensure that, at 81.6 per cent, Scotland has the highest rate of workers in the UK earning the real Living Wage.

Growing our economy

5.17. Beyond creating the conditions for Fair Work, we want Scotland to be the best place to do business in the UK and Europe. To do that we need to ease the cost of doing business, provide high quality transport and digital infrastructure, attract talent, create opportunity for exports, trade and investment, drive ambition and make sure that ambitious businesses can get the help they need to overcome their barriers to growth.

5.18. That is why the Programme for Government articulated the Scottish Government's vision for Scotland to be an inventor and producer of the goods, industries and skills of the future, not just a consumer. Scotland has a competitive advantage in the emerging technologies and innovations that will both drive future growth and deliver our low carbon future. We have also established strengths in key sectors like renewable energy, creative industries, life sciences, tourism, food and drink and advanced manufacturing – we intend to build on these strengths. We are now delivering that vision and will build on this theme in future years.

5.19. Critical to this vision is the Scottish Government's commitment to build and invest in Scotland's infrastructure. The recent Scottish Budget delivered major investments that underpin our focus on innovation, infrastructure and investment, internationalisation and inclusive growth. These include:

- Developing our cities and regions, reducing costs and making Scotland an attractive place to do business:
  - committing over £1 billion over the next 10-20 years to support City Region Deals for Glasgow, Aberdeen, Inverness, Edinburgh and South-East Scotland, with planned action to secure new deals for Stirling, Clackmannanshire and the Tay Cities;
  - £96 million to deliver the most attractive business rates package in the UK with the increase to the rates poundage capped at CPI inflation; and
  - a 64 per cent increase of £270 million in the Economy, Jobs and Fair Work budget, forming part of a total investment of £2.4 billion in our enterprise and skills bodies.
- Supporting innovation and commercialisation of research through:
  - a 70 per cent increase in investment in business Research and Development; and
  - £18 million as part of a £65 million package of investment for the National Manufacturing Institute to make Scotland a global leader in advanced manufacturing.

- Providing world class infrastructure and building low carbon innovation through:
  - supporting every home and business across Scotland to have access to superfast broadband by 2021 through the procurement of the R100 programme;
  - investing £1.2 billion in our transport infrastructure, including key road projects and further electrification of the rail network;
  - the Low Carbon Infrastructure Transition Programme, which is co-funded by the European Regional Development Fund (ERDF) and is expected to fund large scale projects which support the ambitions of Scotland's Energy Strategy, which was published in December 2017. This, coupled with a new £60 million fund to support innovative energy projects, will keep Scotland at the forefront of low carbon innovation; and
  - investing almost £40 million to provide electric vehicle charging infrastructure, with concentrated action to support and encourage the take-up of electric vehicles in cities and towns to contribute essential action towards our target to phase out the need for new petrol and diesel cars and vans by 2032.
- Improving the financial investment landscape in Scotland by creating a programme of additional economic investment of almost £0.5 billion over the next three years, by:
  - setting aside resources of £340 million to provide initial capitalisation for the Scottish National Investment Bank; and
  - creating a new £150 million Building Scotland Fund announced by the Scottish Government in December 2017.

5.20. Providing the right environment to encourage and support investment in Scotland is a fundamental building block for growing the Scottish economy. That is why the creation of the new Scottish National Investment Bank is so important. As an innovative, commercial enterprise which will provide a new supply of capital to boost investment in the Scottish economy, this is expected to encourage the leverage of additional private investment and will drive forward new investment in Scotland.

5.21. The publicly owned Scottish National Investment Bank will become a cornerstone of the economy that we want to create in Scotland. It has the potential to be transformative and will operate under a core set of principles and missions. It will support sustainable growth and bring benefits to individuals and communities across the country, in the process making Scotland a fairer and more prosperous country.

5.22. This represents a significant new development in helping to build the economy of Scotland, and the Scottish Government is committed to investing £2 billion over ten years to support this venture to capitalise the Bank, to provide a significant boost to the supply of capital stimulating the Scottish economy.

5.23. Beyond providing the environment to encourage and support major infrastructure investment, we are taking strides to reform our business environment in order to underpin long-term economic growth. We will do this primarily through building on the successes and transforming the impact of our enterprise and skills agencies. The Scottish Government has established a new Strategic Board to maximise the impact of the collective investment made in enterprise and skills development and to create the conditions for delivering inclusive growth.

5.24. We need to take action at all levels to build and grow the economy, which is why the Scottish Government has committed to creating a new enterprise agency in the South of Scotland, with an interim Economic Partnership in place, backed with an investment of £10 million.

5.25. In light of the UK's exit from the EU and an uncertain European landscape, it is especially important to build collaborations and networks to encourage future European and worldwide investment. To that end, the Scottish Government is boosting Scotland's trade, export and international profile through establishing a Board of Trade to support the delivery of our Trade and Investment Strategy; is establishing new hubs in Berlin and Paris to help ambitious Scottish companies take advantage of business opportunities across Europe; and is strengthening our existing presence in Brussels and Canada.

Economic performance

5.26. As our economic approach builds momentum, we are seeing Scotland lead the way on many economic indicators:

- Scotland has secured more Foreign Direct Investment projects than any other part of the UK outside London;
- Scotland has seen the fastest productivity growth in the UK since 2007;
- Scotland's international goods exports (including oil and gas) increased by 19 per cent to £28.8 billion between 2016 and 2017 – the fastest growth of any of the UK nations;
- Scotland has outperformed the UK in terms of R&D spending growth – over the latest year and since 2007;
- Scotland has the highest proportion of employees paid at least the Living Wage of all UK nations – at 81.6 per cent; and
- Scotland outperforms the UK on female and youth employment, unemployment and inactivity rates.

5.27. Scotland's economic performance has been resilient in 2017 despite challenging economic conditions that continue to be dominated by heightened uncertainty as the UK moves closer to leaving the EU. With four consecutive quarters of growth in 2017, Scotland's economy grew 0.8 per cent overall in 2017, rising from 0.2 per cent growth in 2016. While the pace of growth remains below its long run trend rate, the strengthening over the year was driven by continued growth in the services sector alongside a return to growth in the production sector. The construction sector contracted in 2017 as it continues to adjust back to its long-run trend following exceptionally fast growth in 2015.

5.28. Scotland's labour market is strong – over the past year unemployment and inactivity have fallen, while employment has risen. The latest data for January to March 2018 show that unemployment fell to 4.3 per cent, while the number of people in employment rose to 2.63 million. This is up by 10,000 over the past year and 66,000 more than the pre-recession peak in 2008.

Economic outlook for the next five years

5.29. Over the next couple of years, a number of independent forecasters present a slightly stronger outlook for economic growth. However, the pace of growth is expected to remain below its historic trend. Independent forecasts for the Scottish economy suggest that GDP will grow by between 0.7 per cent and 1.4 per cent in 2018 and that growth will increase in 2019.[12] The improved outlook relative to 2017 reflects a stronger world economy and more optimism for oil and gas and related production activities.

5.30. There are signals from some business surveys that, while business optimism has improved over the past year, business investment intentions are fragile and Scottish consumer sentiment remains weak. This period of heightened uncertainty as a result of the UK's exit from the EU is identified as a key factor affecting the economic outlook by all independent forecasters.

5.31. The Scottish Fiscal Commission produces official forecasts of the Scottish economy over a five year time horizon and its latest forecasts are published alongside this document.

5.32. The Scottish Fiscal Commission's economic forecasts in turn feed into its fiscal forecasts. Forecasts of employment and wage growth are key drivers of the economic and income tax forecasts. Other factors such as demography, migration, productivity and trade in the coming years are also key to determining the forecasts.

5.33. Table 5.1 sets out the latest headline economic forecasts by the Scottish Fiscal Commission (SFC).

TABLE 5.1 – HEADLINE ECONOMIC FORECASTS (CALENDAR YEAR BASIS)

	2017 (outturn)	2018	2019	2020	2021	2022	2023
GDP (per cent growth)	0.8%	0.7%	0.8%	0.9%	0.9%	0.9%	0.9%
Employment (millions)	2.64	2.65	2.65	2.65	2.66	2.66	2.66
Earnings (per cent growth)	1.1%	1.6%	1.9%	2.2%	2.6%	2.9%	3.2%

12 Fraser of Allander Economic Commentary
https://www.sbs.strath.ac.uk/economics/fraser/20180328/FEC_Vol_42_No_1.pdf
EY Scottish ITEM Club 2018 Forecast
http://www.ey.com/Publication/vwLUAssetsPI/ey-scottish-item-club-2018-forecast/$FILE/ey-scottish-item-club-2018-forecast.pdf
PWC UK Economic Outlook
https://www.pwc.co.uk/economic-services/ukeo/pwc-ukeo-march18-full-report.pdf
Scottish Fiscal Commission
http://www.fiscalcommission.scot/publications

5.34. The SFC's latest forecasts continue to suggest that economic growth will be lower in Scotland than the UK as a whole over the next five years. This reflects their judgement that productivity growth will be weaker in Scotland over the period, as well as an expectation that the working age population will grow more slowly in Scotland.

5.35. The SFC's report highlights that:

- the UK's exit from the EU will impact negatively on Scotland's economy and reduce migration, productivity and trade in the coming years;
- in comparison with Office for Budget Responsibility (OBR) forecasts: while there is a gap in total GDP growth between the SFC and OBR forecasts, it is much narrower for GDP per head; and
- by 2022 GDP per capita is forecast to grow by 1.0 per cent a year in the UK (OBR) and 0.7 per cent in Scotland (SFC).

Longer-term economic outlook

5.36. Over the long term, Scotland's economy faces significant challenges from demographic change and the UK's exit from the EU but there are also opportunities associated with transition to the low carbon economy, digitalisation and technological advances and preparing our workforce for the jobs of the future.

5.37. The world economy is changing at a dramatic pace. The successful economies of the future will be resource efficient and low carbon, and they will harness the power of technology. The opportunities for those that adapt and lead these changes are substantial. The Programme for Government 2017 sets out actions to make Scotland a country that will lead change and reap the economic rewards it will bring.

5.38. The Scottish Government recognises the importance of emerging technologies in Scotland, such as automation, and its role in shaping our future prosperity. Scotland has a highly skilled workforce and we will continue to support and develop it in line with modern advances in technology. We can capitalise on changes in global forces, focusing on safeguarding and developing future jobs by preparing a workforce that can adapt and respond effectively to these changes. We share a common objective with the Scottish Trades Union Congress (STUC) – to ensure automation and digitalisation have positive outcomes for all of Scotland's people. Taking this action now to harness the potential of technological change is vital to building a modern, successful and dynamic economy.

5.39. The Scottish Government will continue to place the transformation of Scotland's economy at the heart of everything we do, and through our Economic Strategy we will achieve a more productive, cohesive and fairer Scotland. Building and growing our economy will in turn provide increased tax revenues for Scotland, which will be used to support and enhance the range of public services that we provide.

6 Funding Outlook

6.1. As explained in Chapter 2, the way in which the Scottish Government is funded is changing significantly and as a result the Scottish Government's overall budget is increasingly influenced by the performance of the Scottish economy.

6.2. In 2015-16, almost all of the Scottish Budget came from the UK Government via a block grant. In 2016-17, this had fallen to around 80 per cent and in 2017-18 to 60 per cent. It is expected to fall further following the assignment of VAT in 2020-21.

Range of factors and uncertainties affecting the funding outlook

6.3. As the Scottish Government moves away from being funded primarily through the block grant to a combination of devolved taxes and the block grant, the number of variables which will affect its longer term funding outlook will increase. UK Government spending decisions will continue to affect the Scottish Budget but, as well as these, Scottish Government policy and the relative performance of the Scottish economy will play increasingly important roles.

6.4. One of the most important parts of the new Fiscal Framework is the Block Grant Adjustment for the devolved taxes. This means that the Scottish Budget is not dependent on the total amount of tax raised through devolved taxes, but rather on whether Scotland is raising relatively more or less tax than the rest of the UK.

6.5. Broadly speaking, therefore, under the Fiscal Framework there are three key determinants that can impact upon the Scottish Budget either positively or negatively. All of these relate in some way to UK Government policy, and so are not entirely within the control of the Scottish Government:

- **Changes in UK Government spending** – the block grant from the UK Government remains the single largest source of funding for the Scottish Budget. Changes in the grant are determined by changes in the spending of UK Government Departments through the Barnett formula, and so remain entirely outside the control of the Scottish Government;
- **UK Government fiscal policy** – changes in UK Government tax policy can result in UK Government tax receipts growing at different rates from devolved tax receipts. For example, increases in property taxes in England may result in property tax income increasing faster in the rest of the UK than in Scotland, which would reduce the size of the Scottish Budget. As this occurs as a result of UK Government policy, it is outside the Scottish Government's control; and
- **Scottish tax revenue relative to the rest of the UK** – through the Block Grant Adjustment process, the Scottish Budget is determined by the relative amount of tax raised in Scotland compared to the rest of the UK. If the Scottish Government can successfully grow tax revenue per head for devolved taxes faster than in the rest of the UK, through better economic performance, its budget will increase. If the Scottish Government makes tax policy decisions which increase or decrease tax revenue, these will also increase or decrease the Scottish Budget.

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6.6. Further uncertainty in the funding outlook is introduced through the forecast process itself and through divergence in economic performance. Risks around Scottish Government income differing from forecast can be twofold:

- Scottish devolved tax is different from forecast; or
- the rest of UK tax is different from forecast.

6.7. If Scottish and UK taxes are both different from forecast by the same amount, the Scottish Government income should be unaffected. However, it should be recognised that there is an additional risk in forecasting Scottish taxes, as there is a greater lag in data becoming available for Scotland, with the latest Scottish Fiscal Commission (SFC) forecasts of income tax currently based on 2015-16 data.

6.8. Tax forecasts are often linked to economic forecasts. Economic variables such as employment and incomes will be important in determining decisions such as whether households decide to purchase a house, or whether businesses choose to invest. For example, the income tax forecast can be affected by a range of potential factors including:

- relative employment growth;
- relative wage growth;
- changes in income distribution in Scotland and the rest of the UK; and
- impact of policy changes.

6.9. To this extent, the tax forecasts are often viewed as being closely linked to the economy forecast, with the overall business cycle effects on employment and wage growth likely to be key drivers in the short term, although other factors such as the distribution of incomes and policy choices also play a role. Towards the end of the five year period, longer term underlying trends such as productivity, demographics, and labour market participation may also begin to affect the forecast.

6.10. It should be noted that, while tax receipts can vary, the impact on the Scottish Budget is driven by the scale of any changes relative to any changes in the rest of the UK on a per capita basis.

6.11. While the Scottish and UK economies have historically tended to follow similar paths, they do on occasion diverge. Recent data suggests that they are in a period of divergence at the moment across several areas, with GDP growth, earnings growth and employment growth currently weaker in Scotland. For example, in 2017 the Scottish economy grew by 0.8 per cent, compared to 1.8 per cent for the UK, and although employment grew in Scotland by 0.3 per cent over the year, this was slower than the 1 per cent for the UK. However, the most recent GDP figures showed UK growth of only 0.1 per cent for the first quarter of 2018, which suggests that previous growth forecasts for the UK may have been optimistic.

6.12. It is difficult to assess if and for how long this divergence will continue and to what extent it will impact on the Scottish Budget. As set out in Chapter 5, growing the economy and tax base are key priorities for the Scottish Government. These are reinforced by Scotland's Economic Strategy which presents the strategic plan for existing and future Scottish Government policy, offering a cohesive platform for building economic policy. The Scottish Government is taking a wide range of actions to build and support the Scottish economy through building high quality infrastructure, creating opportunities, driving ambition and supporting entrepreneurial talent and innovation.

6.13. The economic picture is complex. Income tax per head in Scotland has historically been lower than in the UK as a whole, representing a difference of income distributions, with relatively fewer additional rate taxpayers in Scotland.

6.14. This difference can in part be explained by the downturn in the oil and gas industry over this period. Recent evidence suggests that this sector is returning to growth. The divergence may be partly offset by the introduction of a lower higher-rate income tax threshold in Scotland in 2017-18 which would increase Scottish receipts.

Latest forecasts

6.15. The forecasts used to inform the economic modelling change over time and the Scottish Fiscal Commission has produced an updated set of forecasts alongside the publication of this document.

6.16. Table 6.1 (below) shows the SFC forecasts that were produced for the 2018-19 Scottish Budget and updated in February 2018 to reflect changes in income tax policy and compares these to the Block Grant Adjustment figures that were provided by the UK Government as part of the UK Autumn Budget 2017.

TABLE 6.1 – FEBRUARY 2018 FORECASTS FOR REVENUE AND BLOCK GRANT ADJUSTMENT (AS AT BUDGET ACT 2018)

£m		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Income Tax	Revenue forecast	11,214	11,584	12,177	12,647	13,152	13,733	14,372
	BGA forecast	11,214	11,523	11,749	12,056	12,477	12,936	13,403
	Difference	**0**	**61**	**428**	**591**	**675**	**797**	**969**
LBTT	Revenue forecast	483*	557	588	628	668	707	748
	BGA forecast	534*	591	600	622	650	682	689
	Difference	**-51**	**-34**	**-12**	**6**	**18**	**25**	**59**
SLfT	Revenue forecast	148*	137	106	88	90	82	82
	BGA forecast	131*	104	94	86	79	75	71
	Difference	**17**	**33**	**12**	**2**	**11**	**7**	**11**
TOTAL	Revenue forecast	631	12,278	12,871	13,363	13,910	14,522	15,202
	BGA forecast	665	12,218	12,443	12,764	13,206	13,693	14,163
	Difference	**-34**	**60**	**428**	**599**	**704**	**829**	**1,039**

Note 1: At the UK Spring Statement 2018, no BGA information from HM Treasury was available beyond 2021-22. The 2022-23 BGA data has been calculated by the Scottish Government.

Note 2: *The 2016-17 LBTT and SLfT revenues and Block Grant Adjustment figures are outturn figures.

Note 3: Figures may not sum due to rounding.

6.17. Since then, the UK Government has provided updated Block Grant Adjustment figures at the UK Spring Statement 2018 and the SFC has now published their updated revenue forecasts to accompany the publication of this document. Table 6.2 details the latest revenue forecasts provided by the SFC in May 2018 and the latest Block Grant Adjustment estimates from the 2018 UK Spring Statement.

TABLE 6.2 – MAY 2018 FORECASTS FOR REVENUE AND BLOCK GRANT ADJUSTMENT

£m		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
	Revenue forecast	11,267	11,467	11,969	12,345	12,805	13,335	13,936
Income Tax	BGA forecast	11,267	11,626	11,930	12,215	12,612	13,015	13,531
	Net Difference	**0**	**-159**	**39**	**130**	**193**	**320**	**405**
	Revenue forecast	484	550	614	656	697	738	781
LBTT	BGA forecast	534	586	588	606	630	656	689
	Net Difference	**-50**	**-36**	**26**	**50**	**67**	**82**	**92**
	Revenue forecast	148	142	114	93	95	87	87
SLfT	BGA forecast	131	104	106	91	81	77	71
	Net Difference	**17**	**38**	**8**	**2**	**14**	**10**	**16**
	Revenue forecast	11,899	12,159	12,697	13,094	13,597	14,160	14,804
TOTAL	BGA forecast	11,932	12,316	12,623	12,912	13,323	13,749	14,291
	Net Difference	**-32**	**-157**	**74**	**182**	**274**	**411**	**513**

Note: Figures may not sum due to rounding.

6.18. These revised estimates for income tax revenues and Block Grant Adjustments for 2017-18 and 2018-19 do not have any immediate impact on the Scottish Budget. Under the Fiscal Framework, Block Grant Adjustments (BGA) for income tax are fixed for a financial year based on the forecast at the previous fiscal event: for the 2018-19 budget the net revenues for that year were fixed based on the BGA and tax forecast in autumn 2017.

6.19. Final revenues and Block Grant Adjustments for income tax are recalculated when outturn data is available and a budget adjustment agreed at that point. In the case of income tax, this reconciliation will only take place with a considerable lag. For example, outturn data for Scottish income tax revenues in 2017-18 will not be available until July 2019, with the impact of any reconciliation being applied in the 2020-21 Scottish Budget.

6.20. The updated forecasts for future years provide an indication of the level of revenues that the SFC anticipates, but these figures will not be used to set the 2019-20 budget in December 2018, as that will make use of the next set of forecasts that the SFC produces.

Approach to modelling the funding outlook

6.21. Other countries have developed medium term financial reporting and have generally used some form of scenario or sensitivity analysis to forecast available funding, based on levels of risk and forecast errors measured on a combination of economic and fiscal variables.

6.22. Modelling Scottish Government funding scenarios is more challenging as the Fiscal Framework is still very new and there is limited information to consider on the performance of forecasts relative to outturn data. In addition, under the current UK Government Spending Review, the UK Government has not yet set budgets for UK Departments and Devolved Administrations beyond 2019-20 (2020-21 for capital), but has indicated an intention to set out an updated plan for the overall UK public spending envelope at the Autumn Budget in 2018 and to undertake a Spending Review in spring 2019.

6.23. The Scottish Government has undertaken economic modelling to develop a scenario analysis based on forecasting potential levels of funding available over the next five years and aggregating these to produce a path for total potential funding. This sets out a central scenario and then quantifies the uncertainty around the central scenario to produce upper and lower ranges.

6.24. The central funding scenario includes the following elements:

- resource budget limit (excluding new social security funding);
- social security funding;
- capital budget limit;
- Financial Transactions;
- Block Grant Adjustment;
- income from devolved and assigned taxes; and
- capital borrowing.

6.25. The economic modelling looks directly at the evidence on historical variations in the individual factors determining the Scottish Budget, such as Barnett consequentials or differences in per person income tax growth rates in Scotland and the rest of the UK. These historical variations are used to build up a probability of such differences continuing, and their impact on the Scottish Budget. The estimated uncertainty is then used to present fan charts around the central forecast. Further detail is presented in **Annex B**.

6.26. This modelling approach assumes that the current Fiscal Framework methodology (indexed deduction per capita) is used across the entire five year period.

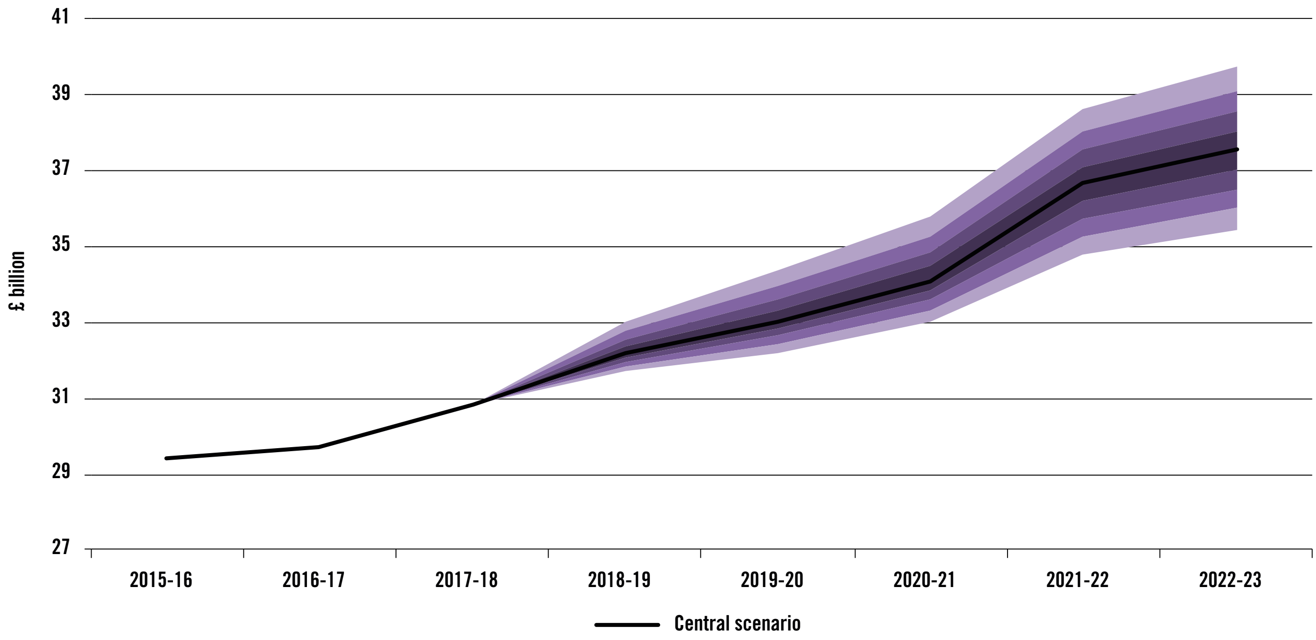
6.27. It should be noted that there are a number of risks to the Scottish Budget which have not yet been captured within this modelling and scenario development, such as the assignment of VAT which will impact on the Scottish Budget from 2020-21. It is expected that further information will be built into modelling in future years as information and understanding increases, including future UK Government funding once a new Spending Review is undertaken.

Paths for the Medium Term Financial Strategy

6.28. Chart 6.1 illustrates the forecast path for the potential overall Scottish Budget. By 2022-23, the budget is forecast to reach £37.6 billion, within a likely range of between £35.5 billion and £39.7 billion. While this represents the most likely upper and lower range, there is a chance that the final budget will lie outside this range.

6.29. This 2022-23 figure includes £3.6 billion associated with the devolution of social security powers. As this additional funding is accompanied by new social security responsibilities for the Scottish Government, this increased funding will not be available for use in other areas. This social security directed funding will increase from 2019-20 onwards, with a particularly large increase in 2021-22 when the powers for some of the major benefits are expected to be devolved to Scotland.

CHART 6.1 – OUTLOOK FOR THE OVERALL SCOTTISH BUDGET



6.30. The model uses the following assumptions for estimating the net impact of the newly devolved revenues on the Scottish Budget (i.e. the difference between Scottish revenue and the corresponding Block Grant Adjustment (BGA)). For the years up to and including 2018-19, we use the agreed Scottish Budget positions for each Budget Act. For income tax, these forecasts will not be revised until forecasts are reconciled to outturn data in 2020-21 and 2021-22 respectively.

6.31. For 2019-20 onwards, we use the May 2018 Scottish Fiscal Commission forecast for each devolved tax. The BGA forecast data used is based on the UK Government 2018 Spring Statement forecasts. The figures covering 2019-20 until 2022-23 are included in Table 6.2 and these figures will all be updated prior to the next Scottish Budget.

6.32. Table 6.3 illustrates this devolved tax and BGA data for 2016-17 to 2022-23 that has been used in the central scenario.

TABLE 6.3 – REVENUE AND BLOCK GRANT ADJUSTMENT IN THE CENTRAL SCENARIO (£M)

£m		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Income Tax	Revenue	4,900	11,857	12,177	12,345	12,805	13,335	13,936
	BGA	4,900	11,750	11,749	12,215	12,612	13,015	13,531
	Net Difference	**0**	**107**	**428**	**130**	**193**	**320**	**405**
LBTT	Revenue	538	507	588	656	697	738	781
	BGA	500	545	600	606	630	656	689
	Net Difference	**38**	**-38**	**-12**	**50**	**67**	**82**	**92**
SLfT	Revenue	133	149	106	93	95	87	87
	BGA	100	119	94	91	81	77	71
	Net Difference	**33**	**30**	**12**	**2**	**14**	**10**	**16**
TOTAL	Revenue	5,571	12,485	12,871	13,094	13,597	14,160	14,804
	BGA	5,500	12,414	12,443	12,912	13,323	13,749	14,291
	Net Difference	**71**	**71**	**428**	**182**	**274**	**411**	**513**

Note 1: Tax revenues for 2016-17 to 2018-19 are as agreed in respective Scottish Budget Acts and from 2019-20 onwards are the May 2018 SFC forecasts.

Note 2: BGA forecasts for 2016-17 to 2018-19 are specified by HM Treasury (HMT) at the time of agreeing the respective Scottish Budget Acts. From 2019-20 onwards these are the latest forecasts provided by HMT at the Spring Statement 2018.

Note 3: 2016-17 income tax revenue forecast: in this year the Scottish Rate of Income Tax applied. Full Scottish income tax powers took effect from 2017-18. This explains the substantial increase in forecast revenues between 2016-17 and 2017-18.

Note 4: Figures may not sum due to rounding.

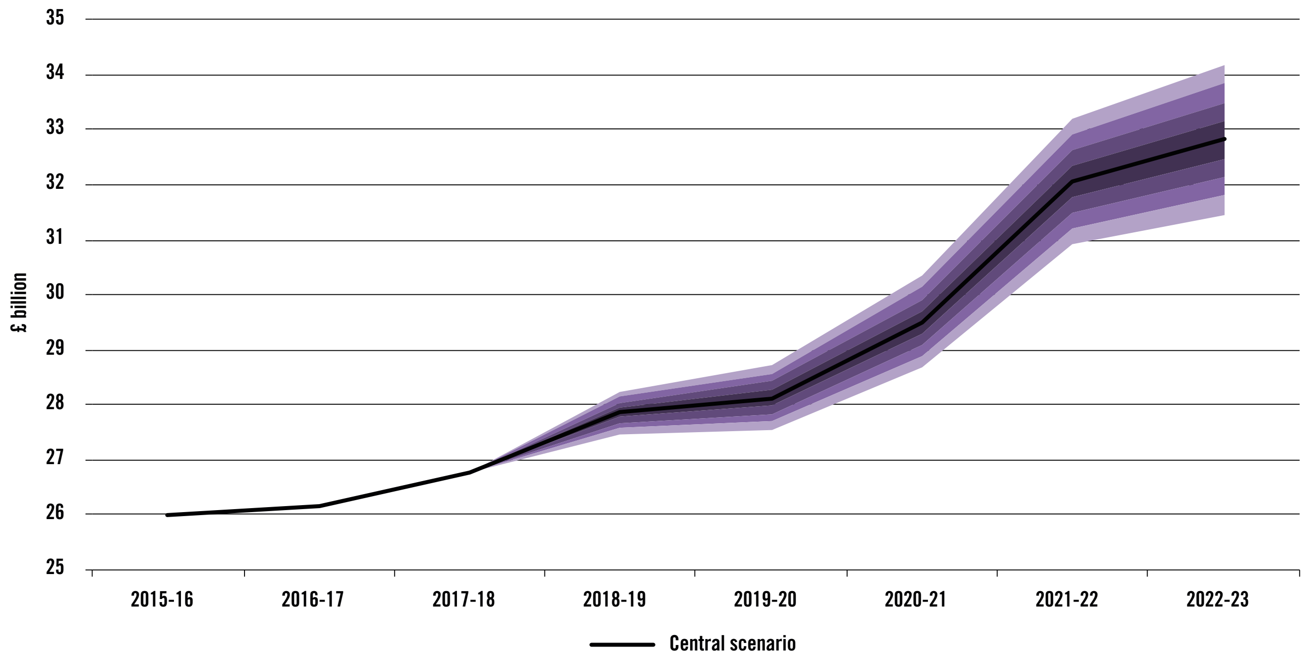
6.33. While indicative estimates of Scotland's net budget position, such as those shown in Tables 6.1, 6.2 and 6.3, may provide an indication of the direction of travel and potential scale of the final reconciliation, significant uncertainties remain, as experience shows that forecasts are subject to considerable change between fiscal events.

6.34. In addition, forecasts of Scottish receipts are produced by the Scottish Fiscal Commission while the Block Grant Adjustment is determined by forecasts of growth in receipts from the rest of the UK as provided by the OBR. This introduces an additional element of uncertainty, as there are many factors that may contribute to differences in these forecasts, some of which are unrelated to different views about the outlook for the Scottish and UK economies. For example, the OBR and SFC produce these forecasts at different times using different methodologies, assumptions and input data.

6.35. Once outturn data is published a reconciliation and a budget adjustment are agreed for the financial year thereafter. The Scottish Government will subsequently manage any negative or positive variance from the initially agreed budget position. The Scottish Government will closely monitor any risks arising from the net BGAs.

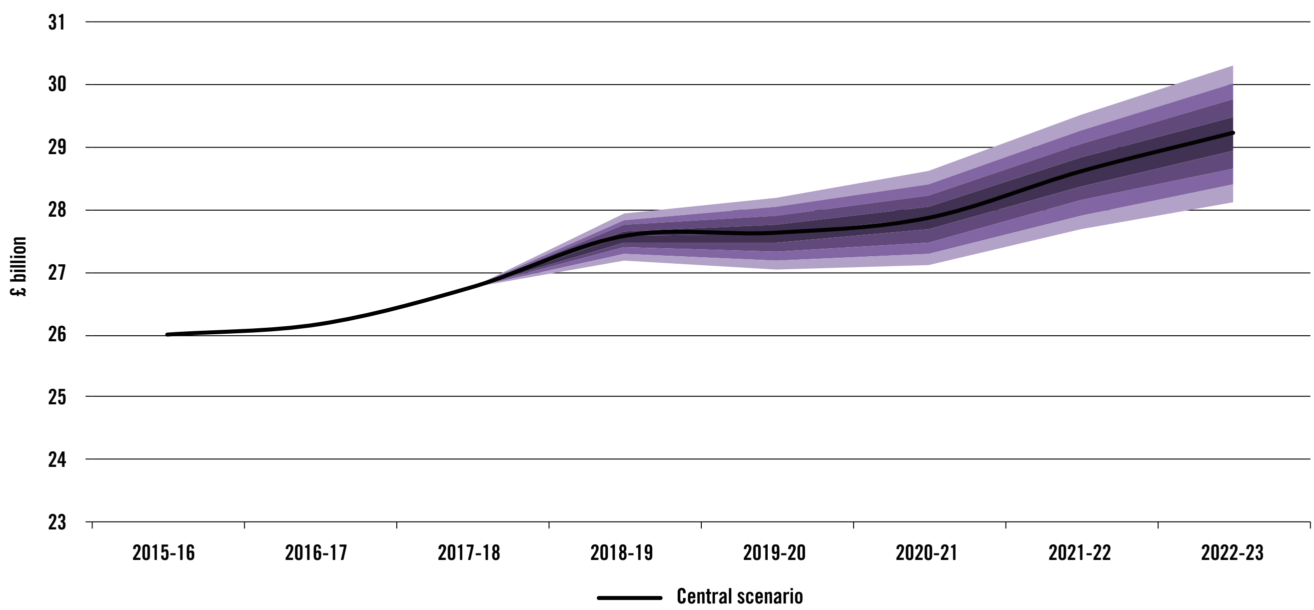
6.36. Chart 6.2 illustrates the potential path for the total resource budget. The increase in the resource budget in 2021-22 associated with additional social security powers is visible in the projection.

CHART 6.2 – OUTLOOK FOR RESOURCE BUDGET (INCLUDING SOCIAL SECURITY)



6.37. The potential path for the resource budget excluding funding for the new social security powers has also been considered and Chart 6.3 illustrates that. The profile for growth in 2021-22 is noticeably flatter than for overall resource spend. The risks are proportionately similar to the overall resource budget, with a range of ±£1,095 million.

CHART 6.3 – OUTLOOK FOR RESOURCE BUDGET (EXCLUDING SOCIAL SECURITY)



6.38. Chart 6.4 illustrates the potential path for the capital budget excluding Financial Transactions. This is symmetric around the central forecast, at ±£240 million by 2022-23. This variation in the earlier years is smaller as we already have allocated capital budgets out to 2020-21, which could still vary due to spending decisions by the UK Government. The variation in later years reflects the uncertainty over funding levels ahead of the next UK Spending Review in 2019.

6.39. The capital budget also assumes that full capital borrowing (£450 million) will be undertaken in 2019-20, but that no commitment on capital borrowing has been included at this stage for any years beyond 2019-20.

CHART 6.4 – OUTLOOK CAPITAL BUDGET (EXCLUDING FINANCIAL TRANSACTIONS)

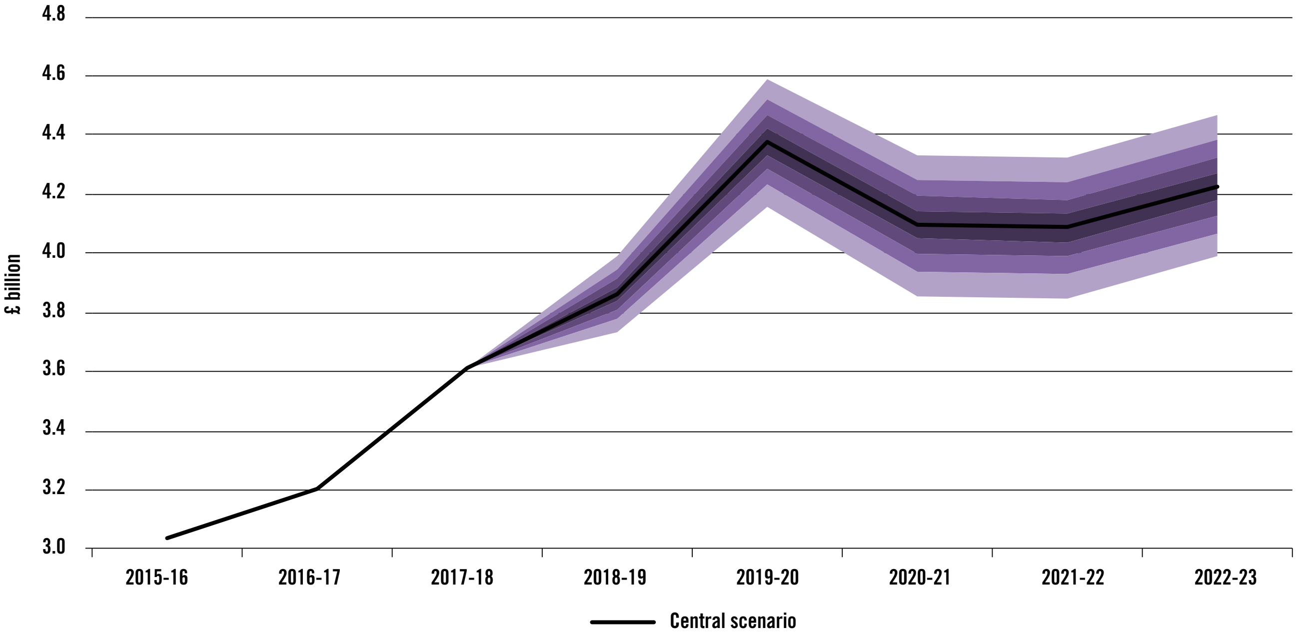


TABLE 6.4 – SUMMARY OUTLOOK FOR THE MEDIUM TERM FINANCIAL STRATEGY, WITH UPPER AND LOWER RANGES (£M)

	2018-19	2019-20	2020-21	2021-22	2022-23
OVERALL BUDGET[1]					
Upper range	33,035	34,373	35,770	38,621	39,736
Central scenario	32,212	33,024	34,110	36,661	37,555
Lower range	31,704	32,201	33,026	34,774	35,447
Resource budget[2]					
Upper range	28,238	28,736	30,355	33,214	34,189
Central scenario	27,860	28,129	29,510	32,070	32,824
Lower range	27,481	27,522	28,664	30,926	31,458
Of which, new social security					
Upper range	298	528	1,738	3,689	3,872
Central scenario	290	507	1,649	3,466	3,602
Lower range	282	486	1,560	3,243	3,332
Capital budget[3]					
Upper range	3,993	4,592	4,333	4,324	4,464
Central scenario	3,863	4,376	4,095	4,086	4,226
Lower range	3,733	4,160	3,857	3,848	3,989
Financial Transactions					
Upper range	804	1,044	1,083	1,083	1,083
Central scenario	489	519	505	505	505
Lower range	489	519	505	0	0

Notes:

1 Overall budget: Total Scottish Government funding excluding non-cash elements.

2 Resource budget: Fiscal Resource Budget limit and the net Block Grant Adjustment; updated for the Scottish Rate Resolution; including additional adjustments for NDR, Scotland Act Implementation, Migrant Surcharge, Queen's and Lord Treasurer's Remembrancer (QLTR), Rail Resource Grant; and social security funding.

3 Capital budget: Capital Budget limit plus Capital Borrowing.

TABLE 6.5 – SUMMARY OUTLOOK FOR THE MEDIUM TERM FINANCIAL STRATEGY, WITH UPPER AND LOWER RANGES (£M) – EXPRESSED IN REAL TERMS (AT 2018-19 PRICES*)

	2018-19	2019-20	2020-21	2021-22	2022-23
OVERALL BUDGET					
Upper range	33,035	33,841	34,642	36,764	37,142
Central scenario	32,212	32,514	33,033	34,898	35,104
Lower range	31,704	31,703	31,984	33,102	33,133
Resource budget					
Upper range	28,238	28,292	29,397	31,617	31,957
Central scenario	27,860	27,694	28,578	30,528	30,681
Lower range	27,481	27,097	27,760	29,439	29,405
Of which, new social security					
Upper range	298	520	1,683	3,512	3,619
Central scenario	290	499	1,597	3,299	3,367
Lower range	282	478	1,511	3,087	3,114
Resource budget *(exc Social Security)*					
Upper range	27,940	27,780	27,722	28,112	28,360
Central scenario	27,570	27,203	26,990	27,235	27,336
Lower range	27,199	26,626	26,257	26,358	26,312
Capital budget					
Upper range	3,993	4,521	4,196	4,116	4,173
Central scenario	3,863	4,308	3,966	3,889	3,950
Lower range	3,733	4,096	3,735	3,663	3,729
Financial Transactions					
Upper range	804	1,028	1,049	1,031	1,012
Central scenario	489	511	489	481	472
Lower range	489	511	489	0	0

*Using HM Treasury GDP Deflators as at 3 April 2018

What does this modelling indicate?

6.40. The central scenario analysis suggests that, by 2022-23, the Scottish Budget (excluding non-cash and Annually Managed Expenditure) could be around £37.6 billion.

6.41. The scenario modelling indicates that the potential range for this could be between £35.5 billion and £39.7 billion, reflecting potential growth in the Scottish Budget between 2017-18 and 2022-23 of between £4.2 billion and £8.4 billion (in cash terms).

6.42. The range of this variability amounts to around ±6 per cent of the overall budget. This reflects the uncertainty around the block grant and Scottish devolved tax income and the impact of economic uncertainty around the UK's exit from the EU, but also highlights how differences can cumulate over a relatively short period.

6.43. As Chapter 5 sets out, the Scottish Government is committed to the delivery of our Economic Strategy and on improving overall Scottish economic performance and ensuring revenues are towards the upper end of the forecasts. We are seeing positive results as our economic approach builds momentum and now see a number of positive economic indicators in Scotland including on foreign direct investment, productivity growth, international goods exports and R&D spending growth. This includes:

- the number of VAT/PAYE registered businesses increasing to 176,400 in 2017 – the highest figure since the time series began (in 2000);
- Scotland securing 122 Foreign Direct Investment (FDI) projects in 2016, more than any part of the UK outside London for the fifth year in a row; and
- all three of Scotland's largest cities (Glasgow, Edinburgh and Aberdeen) being in the UK's top 10 for numbers of FDI projects secured.

6.44. The analysis also suggests that the single largest source of variance in the Scottish Budget is likely to be the Block Grant Adjustment. Uncertainty around the Block Grant Adjustment is estimated at around ±£930 million by 2022-23, while uncertainty around Barnett consequentials, social security and Financial Transactions taken together is around ±£1,200 million.

6.45. As new data on income tax becomes available and as new Scottish Fiscal Commission forecasts are issued, these figures will be subject to change.

6.46. As mentioned earlier, there are also a number of variables in the Scottish Budget that are not yet captured, such as the assignment of VAT, which will impact on the Scottish Budget from 2020-21.

6.47. **Annex B** describes some of the background information and assumptions used to produce this modelling approach.

7 Policy Priorities

The distinct Scottish Government policy approach

7.1. A decade ago, in 2007, the introduction of the Scottish Government National Performance Framework (NPF)[13] and the outcomes-based approach to Government was ground breaking and presented the foundation for a transformative shift in how future policy would be developed and delivered by the Scottish Government.

7.2. Our "Scottish Approach" is focused on outcomes – on driving improvement; on building on the strengths and assets of individuals and communities; and on services which are shaped and co-produced by both service providers and the people and communities who receive and engage with those services.

7.3. The principles of this performance framework have stood the test of time and they are as relevant now as they were ten years ago. Since its introduction the NPF was refreshed in 2011 and 2016. With the introduction of the Community Empowerment (Scotland) Act 2015 (which came into force 15 April 2016), the outcomes-based approach has been given a statutory footing and the Scottish Government has taken this opportunity to undertake a wholesale review of the framework to ensure that it is as strong and relevant as it can be.

7.4. The scope of this review includes building wider consensus around the framework; improving alignment with the UN Sustainable Development Goals and other frameworks, such as Scotland's National Action Plan for Human Rights and Scotland's Economic Strategy; and simplifying the language and look of the framework to make it more accessible. Subject to Parliamentary consideration, the new National Performance Framework will be formally launched in summer 2018.

7.5. Building on the outcomes approach, Scotland's Economic Strategy sets out an overarching framework for how we aim to achieve a more productive, cohesive and fairer Scotland. It is the strategic plan for existing and future Scottish Government policy and represents the blue print for building a stronger and more diverse future Scottish economy.

Managing challenges and uncertainty

7.6. Despite the economic turbulence created by the UK Government through the uncertainty around the UK's exit from the EU and its continued approach to austerity, the Scottish Government's clear vision of building the economy, protecting public services and developing a fairer and more inclusive society continues to lead Scotland through these uncertain times.

7.7. In common with other developed countries, Scotland has an ageing population, reflecting welcome medical and economic advances, and Scotland will benefit hugely from the skills and life experiences of its older citizens. However, changes in the Scottish population will create pressure on public sector budgets in the future.

7.8. This is reflected in the latest Programme for Government, where the First Minister highlights that, "as our population ages, we must meet the needs of our older citizens while ensuring fairness across the generations".

13 The Scottish Government National Performance Framework

7.9. An ageing population is not new. It has been with us for the last 15 years but is set to accelerate from 2021 onwards and is happening at a faster rate than in the rest of the UK. There are two dimensions to this:

- first, we will see a big increase in the number of people aged 75 plus, as baby boomers age. Over the next 20 years, more than 70 per cent of all population growth will be in the 75 plus age group. The Fraser of Allander Institute's assessment of long-term fiscal challenges noted that as our population ages and as the prevalence of chronic health conditions increases, Scotland's public finances are likely to come under significant pressure over the medium to long term from rising health costs; and
- second, our working population is ageing too, with fewer younger workers and more workers in the 50 plus age bracket. Over recent years the number of people aged 50 plus who are still working has increased in Scotland, but remains lower than in some countries in Europe. With less certainty over migration levels after the UK's exit from the EU, it will be even more important that people aged 50 plus remain in work to retirement age. As well as maintaining the size of our working population and associated income tax revenues, it is important that Scotland draws on the skills and experience of older workers and provides the opportunity for work as an important part of a fulfilling life.

7.10. A further challenge is to ensure that Scotland can maximise the benefits of its currently diverse population. A more inclusive economy where all members of Scottish society, irrespective of gender, race, disability, age or socio-economic background, are able to access appropriate, quality jobs, generate business opportunities or undertake skills progression would optimise economic and social impact.

7.11. While there is some uncertainty about how elements of demographic change will play out, the fundamentals are set, and are well understood. The challenge of an ageing population will continue at least for the next 25 years and over the longer term all future Scottish Governments will need to respond to the pressures this creates.

7.12. In contrast, the impact of technological change is less clear, yet is likely to be significant in scale. Commentators have described artificial intelligence, automation and other technological changes as one of the 'biggest economic issues of our age' and forecasts suggest that one in five jobs in Britain's cities could be displaced by 2030.

7.13. 80 per cent of the workforce in 2030 is already in the workforce now. One of the biggest strategic challenges associated with technological change is its impact on jobs – some jobs are at risk of being overtaken by automation entirely, many others will change significantly. Overlaying Scotland's demographics – in particular our ageing workforce – amplifies this challenge.

7.14. Again this will play out well beyond the five year time horizon of the Medium Term Financial Strategy, but its potential impact on economic performance, employment levels and tax revenue, constitutes a key consideration for current and future Governments and drives our investment in the economy.

Paying for public services and our policy goals

7.15. The First Minister set out a clear vision for Scotland through the 2017 Programme for Government, focused on building an inclusive, fair, prosperous and empowered Scotland. The Scottish Government will continue to implement that vision in 2018-19 and beyond and this year's budget provided the resources necessary to support that work in 2018-19.

7.16. The Programme for Government sets out the key elements of the social contract between the Scottish Government and the people of Scotland including health care, a strong and fair justice system, excellent public sector education (including free tuition fees) and support for the vulnerable – an approach which begins to lay foundations to address the demographic challenges outlined above.

7.17. Despite the challenging economic and financial context, the Scottish Government has sought to protect public services, but recognised that a fresh debate was required to talk about how we continue to maintain appropriate investment in our public services, while recognising the pressure that household incomes are under.

7.18. Ahead of the 2018-19 Budget the Scottish Government published an income tax discussion paper. Following that, we have introduced a revised, fairer income tax system for Scotland which uses the powers available to us as a lever to counter on-going UK Government austerity and support sustainability in our public services.

7.19. The Scottish Government's approach to taxation is founded on the four key Adam Smith principles of certainty, convenience, efficiency and proportionality to the ability to pay:

- **certainty** – this is important for households and businesses alike to ensure that financial decisions can be taken from an informed position on the path of future tax policy. That is why, for example, the Scottish Government provided certainty to landfill operators by committing that Scottish Landfill Tax will be no lower than prevailing UK rates;
- **convenience** – the vast majority of income taxpayers pay their income tax through Pay As You Earn (PAYE), with little or no administrative impact on taxpayers. Decisions made in setting Scottish income tax rates and bands were made with this in mind. That is why the Scottish Government also legislated for a digital first approach to the fully devolved taxes, delivering convenience and efficiency through the use of a modern electronic payment system, while still allowing for paper returns where required;
- **efficiency** – this is central to the Scottish Government's approach on the fully devolved taxes. That is why the Scottish Government enabled the Land and Buildings Transaction Tax to be collected by Registers of Scotland, on behalf of Revenue Scotland, drawing on their existing knowledge and expertise of property taxes and the familiarity of taxpayers and agents with the processes involved; and
- **proportionality** – proportionality to the ability to pay is vital. Everyone benefits from public services and all those who can contribute are expected to do so, and those with the broadest shoulders should make the greatest contribution. Scotland led the way in the UK by establishing a progressive approach to the setting of rates and bands for Land and Buildings Transaction Tax, with the amount paid more closely related to the value of the property or transaction and therefore to the ability of individuals to pay.

7.20. As well as these principles, the Scottish Government's approach to tax is based on collaborative tax policy development, characterised by regular and engaged consultation with taxpayers, industry representatives and professional bodies and a firm approach to tax avoidance.

7.21. We want to encourage a culture of responsible taxpaying where people and companies pay their tax as Parliament intended.

7.22. The 2018-19 Budget provided a more progressive approach to taxation in Scotland, that offers both significant protection to the lowest earning tax payers and asks those best able to afford it to contribute more towards sustaining public services.

7.23. This approach introduced new income tax Starter and Intermediate rates which, alongside the increase in the Personal Allowance, see no one earning less than £33,000 per year paying more than they did in 2017-18 – meaning that more than half of all taxpayers will pay less than if they lived elsewhere in the UK.

7.24. Those changes are combined with a 1 per cent increase in the Higher Rate Threshold and asking Higher and Top rate taxpayers to pay 1 per cent more. In combination, these policies were sufficient to reverse the real terms cuts to Scottish Budgets in 2018-19, imposed by the UK Government, and are projected to contribute over £400 million a year in net additional revenues by 2022-23.

7.25. The public response to the taxation changes confirms a wider public acceptance of this balanced approach to funding public services. In developing that approach we set out four policy tests that we believe any income tax policy change must meet if it is to successfully support our economy and the delivery of, and investment in, our public services. The four tests are:

- **revenue** – income tax policy should maintain and promote the level of public services which people in Scotland expect;
- **protecting lower earners** – the lowest earning taxpayers should not see their taxes increase;
- **progressivity** – any tax changes should make the tax system more progressive and reduce inequality; and
- **economic growth** – the changes we make, along with our decisions on spending, should support our economy.

7.26. The Scottish Government's chosen income tax policy met those tests in the following ways:

- **revenue** – the policy is expected to raise over £210 million in 2018-19 in net additional revenues for public services in Scotland. Rate-setting decisions have been taken to ensure a balance where any behavioural impacts are forecast to be minimised;
- **protecting lower earners** – overall, when combined with the planned increase in the Personal Allowance, for an unchanged income, 70 per cent of Scottish taxpayers (those earning up to £33,000) will not pay any more tax in 2018-19 than they did in 2017-18;

- **progressivity** – the policy improves the progressivity of the tax system by increasing the number of bands, lowering the rate on income up to £13,850, and asking the highest earning 30 per cent of taxpayers to contribute more for an unchanged income than they did last year. Under our proposal the Gini co-efficient[14] in Scotland is estimated to fall; and
- **economic growth** – the proposal will increase income tax revenues by around 1.4 per cent and the Budget sets out a range of expenditure decisions that will support inclusive growth. As outlined in the income tax discussion paper, any economic impacts from a tax rise on this scale are likely to be relatively small. Moreover, because lower earners (who spend a higher proportion of their income) are protected, the risk of an immediate impact on consumer spending will be reduced. Increasing the Top Rate by 1p, rather than the 5p proposed under some of the alternative approaches assessed in the discussion paper, also reduces the risk that high earners would change their behaviour in ways that impact on the economy.

7.27. The additional revenues generated from our income tax policy are part of what allows us to sustain our social contract with the people of Scotland and deliver on the key policy commitments set out below, which we will deliver over the medium term.

Public Service Reform – maximising the use of our resources

7.28. In addition to building the tax base in Scotland and maximising available funding, the Scottish Government is committed to reforming how public services use resources to address demographic and resource pressures to improve outcomes, especially for those whose wellbeing and life chances are poorest.

7.29. This commitment is rooted in the Christie Commission's four key principles of prevention, performance, partnership and people. This recognises that public services can improve outcomes and work more efficiently when they work together to shape joined-up services around the distinctive needs of communities, including building preventative approaches to strengthen positive outcomes and tackle persistent inequalities.

7.30. This commitment to reform underpins many of our key spending commitments, including supporting the transformation in health and social care; investment in preventative activity to give all our young people the best start in life; closing the attainment gap; and extending healthy life expectancy.

7.31. This approach requires our public services to shape their work around the needs of people – working together and with the third sector, private sector and communities to pursue accelerated progress on reform activity at local and regional levels through:

- strong, shared leadership to provide vision and drive;
- digital transformation;
- freeing up frontline staff to draw on their skills, insight and understanding of people's needs to reform local services;

14 The Gini co-efficient is a measure of how equally income is distributed across the population. It takes a value between 0 and 100 where 0 represents perfect equality. In 2015-16, the Gini co-efficient for Scotland was 34. World Bank figures show a range from around 60 (South Africa) to around 25 (Norway).

- involving and empowering communities to take action to improve their wellbeing; and
- embracing the power of data and digital technologies to improve outcomes.

7.32. Examples of this work and how we are creating the conditions for reform include:

- **education reform** – with local government we have established six new Regional Improvement Collaborative areas. These bring together local and national expertise to support our schools to respond to local needs, work collaboratively and drive improvement, including in closing the attainment gap;
- **children's services** – we are supporting local public services to redesign children's services in ways that enable prevention and early intervention and reduce the need for high-intensity, high-cost services; and
- **public health** – our joint work with COSLA to take forward public health reform recognises that we must empower communities to make decisions to create the conditions for health in their areas. This work will take advantage of the Local Governance Review, which is creating space for new ideas to empower local communities and support inclusive growth at local and regional levels.

Outline of key policy priorities

7.33. The Scottish Government's core purpose, to focus on creating a more successful country with opportunities for all of Scotland to flourish through increased wellbeing, and sustainable and inclusive economic growth, drives the delivery of our policies and public services.

7.34. This is built on the principle of equality for all, from birth through early years and education, to employment and retirement, with access to essential public services, at the right time, which are free at the point of delivery. We target our resources to support the delivery of this 'social contract'.

7.35. We have a clear vision of the main commitments that will achieve this, which have been set out in the Programme for Government each year, with delivery over the current Parliamentary term and beyond.

7.36. The budget for these commitments in 2018-19 has been agreed by the Scottish Parliament and decisions on the level of future investment required in these policy areas will be taken as part of future budget setting processes. In detailing these commitments and explaining the challenges ahead, it is important to understand that this document is not seeking to set or determine future budgets for individual commitments or portfolios.

7.37. It is also important to note that this document does not cover all of the spending commitments that the Scottish Government will meet over the next four years, but instead highlights a range of key commitments with an indication of the potential investment that will be required to deliver them.

Resource budget

7.38. The key resource budget commitments that support the Scottish Government's social contract and require significant investment are:

- Health;
- Police;
- Early Learning and Childcare;
- Attainment;
- Higher Education; and
- Social Security.

Health

7.39. The NHS, which celebrates its 70th anniversary in 2018, is our most treasured public service. The Scottish Government is committed both to reform of and investment in the health service, including a pledge to increase resource spending on the NHS by £2 billion over the course of this Parliament.

7.40. The Scottish Government will also be publishing a Medium Term Health and Social Care Financial Framework in June 2018. The Health Framework has been developed in consultation with NHS Boards, COSLA, local government and Integration Authorities. That document considers the whole health and social care landscape (recognising that it is a framework and that further detail on financial plans and how transformation will be achieved will require to be set out elsewhere). That Framework has been structured into five main sections that:

- set out an overview of current expenditure – considering historical expenditure trends and examine how these resources have been used to deliver additional activity and an associated estimate of productivity;
- provide an estimate of the resources required to meet Scotland's health and social care needs in the future - Scotland like all other countries in the world is facing increases in demand for care due to demographic growth and increased expectations from people using services;
- map out policy initiatives and how these will influence the future shape of expenditure;
- set out the transformation activities that will be required to ensure the health and social care system is financially sustainable in the long term; and
- consider transformation funding - how reform and system change will be financed.

7.41. In the early years of the Parliament the health budget has received significant additions on an annual basis, including additional resource investment of over £400 million in the health service in 2018-19. This continued investment will ensure that prevention and early intervention improve healthy life expectancy while we transform the way we deliver health and social care to adapt to Scotland's changing health and care needs. As part of the overall financial settlement for Health, reflecting our commitment to the social contract, the Scottish Government will continue to support the provision of free prescriptions, free personal care for the elderly and free eye examinations.

7.42. That investment needs to continue over the remainder of this Parliament and decisions on the precise allocations for each year will be taken as part of the annual budget setting process.

7.43. In order to illustrate the impact of the £2 billion commitment (and to meet the commitment to pass on all health resource consequentials), Table 7.1 models an increase in the health budget of around £400 million in 2019-20, a further £300 million in 2020-21 and around an additional £600 million in 2021-22. The precise profile of funding will be considered as part of the annual budget process in the usual way.

7.44. The commitment for increased health funding runs to 2021-22 and no commitments on funding levels for the period beyond 2021-22 currently exist. For the purposes of this Medium Term Financial Strategy we have modelled an inflationary uplift in the health budget for 2022-23.

TABLE 7.1 – POTENTIAL HEALTH FUNDING UPLIFT PROFILE

£bn	2018-19	2019-20	2020-21	2021-22	2022-23
Potential Health Funding Uplift	-	+0.38	+0.29	+0.59	+0.24
Potential Health Budget Total	12.87	13.25	13.54	14.13	14.37

Police

7.45. The Scottish Government is dedicated to protecting local communities through effective policing and, with recorded crime at a 42 year low, Scotland is as safe as it has been for over a generation.

7.46. Building on the success of police reform, we will continue to support the Scottish Police Authority (SPA) and Police Scotland to deliver the priorities in the Policing 2026 Strategy which was laid before Parliament in June 2017. The Strategy sets out how Police Scotland will strengthen its service to communities and respond to changing demands.

7.47. In order to support that work the Scottish Government will continue to protect the resource budget of the SPA in real terms for the entirety of the Parliament – delivering an additional £100 million of investment by 2021. This equates to approximately £20 million extra in each financial year.

7.48. In addition, from April 2018 we have ensured that policing will fully benefit from being able to reclaim the VAT previously paid to the UK Government. This commitment means that the effective spending power on policing will increase by around £25 million compared with previous years. This does not require additional budget to be allocated to Police Scotland, it simply allows them to use their existing budget provision for other purposes as they no longer need to meet the VAT liability.

Early Learning and Childcare

7.49. Our focus on the early years will embed an approach rooted in prevention and early intervention, and will support those children and families who will benefit most. That is why, as part of providing the best start for every child, we are committed to a transformative expansion of Early Learning and Childcare (ELC) provision.

7.50. We have already increased publicly funded, high quality Early Learning and Childcare by almost 50 per cent to 600 hours per year since 2007 and extended entitlement to around a quarter of two year olds, and the 2018-19 budget continues to fund that in full through local authorities. We are now working closely with local authorities to deliver our ambitious goal of increasing funded ELC entitlement to 1,140 hours per year – the same number of hours a child spends in primary school.

7.51. This will require substantial additional investment in both extra staff and premises – the 2018-19 budget delivers over £240 million of investment (resource and capital) for ELC expansion.

7.52. In line with the commitment in the 2017 Programme for Government to provide multi-year funding allocations for the ELC expansion programme, agreement has now been reached with COSLA on both the overall quantum of funding to support the expansion and the profile of that funding between now and 2021-22.

7.53. This will require further (recurring) uplifts in resource funding to local authorities of £210 million in 2019-20, £201 million in 2020-21 and £59 million in 2021-22. The multi-year funding deal agreed with local authorities currently extends until 2021-22. For the purposes of this modelling we have simply rolled forward the 2021-22 figures into 2022-23 (decisions on funding beyond 2021-22 will be agreed in future budget processes).

7.54. Table 7.2 sets out the resource funding package that has been agreed with local authorities to support the ELC expansion.

TABLE 7.2 – ELC EXPANSION RESOURCE FUNDING AGREED WITH LOCAL AUTHORITIES

£m	2018-19	2019-20	2020-21	2021-22	2022-23
Resource funding	96	307	508	567	567
Annual additional funding	-	+210	+201	+59	-

7.55. In addition to the local authority funding outlined above there are also other small elements of ELC funding within the Scottish Government Education and Skills Portfolio budget.

Attainment

7.56. All children and young people, whatever their background or circumstances, deserve the same chance to reach their full potential. That is why improving outcomes for children, young people and their families is at the heart of the Scottish Government's agenda and spending plans.

7.57. Our top priorities are to raise attainment and close the attainment gap; promote health and wellbeing; and improve skills and employability. Ensuring the best start in life for every child, irrespective of their gender, ethnicity, disability or socio-economic background, contributes to each of these four high-level priorities. Everyone will benefit in future if we invest in our young people now.

7.58. In order to support this work, the Scottish Government has committed to allocate £750 million through the Attainment Scotland Fund, over the term of the Parliament, to tackle the attainment gap.

7.59. We are already two years into this commitment, with Pupil Equity Funding already beginning to transform schools by enabling head teachers to secure the additional staffing or resources they need to support pupils affected by poverty and boost attainment levels. As minority ethnic children and children living in a household with a disabled parent or child are more likely to be in poverty, this fund also tackles wider inequalities. In 2018-19, we have allocated £180 million towards raising attainment and closing the attainment gap.

7.60. In order to fulfil this commitment, we will need to allocate around £180 million in each of the remaining years of the Parliament in order to meet the £750 million overall commitment. The precise profile of this funding has not yet been finalised, but for the purposes of the Medium Term Financial Strategy, we have assumed that this will be approximately £180 million in 2019-20 and 2020-21.

Higher Education

7.61. Scotland has an internationally successful Higher Education sector, including some of the world's oldest and most prestigious universities as well as world leading modern and specialist institutions.

7.62. The Scottish Government has made clear that we want every child, no matter their background, to have an equal chance of entering and succeeding in Higher Education – a commitment that was made in the 2014 Programme for Government. By 2030, the Scottish Government wants 20 per cent of students entering university to be from Scotland's 20 per cent most deprived backgrounds and we want a better gender balance across subjects studied.

7.63. We believe education should be based on the ability to learn, not to pay, and we are providing record levels of support for students in higher and further education as part of our commitment to the social contract. We are protecting free tuition and are also committed to providing an annual minimum income for the least well-off full-time students in higher education. We are also working closely with universities and colleges to reach a better gender balance across courses with more girls entering Science, Technology, Engineering and Mathematics (STEM) and more boys entering social science, teaching and care courses.

7.64. We continue to prioritise funding for this and have invested over £1 billion in Higher Education in the budget settlement for the Education and Skills portfolio in 2018-19. We will fund over 125,000 free places in 2018-19. For the purposes of this document, we have assumed that a similar level of funding will be required in each of the following financial years out to 2022-23 to continue to support the delivery of this policy. Decisions on the actual amounts of funding in each year will be taken in the annual budget process. Funding is delivered through the Scottish Funding Council.

Social Security

7.65. The Social Security (Scotland) Bill was approved by the Scottish Parliament on 25 April 2018. The Bill sets up a framework for a new, Scottish social security system, drawing on the responses received to our wide public consultation and engagement programme. It transposes 11 devolved social security benefits onto a Scottish legislative platform, allowing the Scottish Government to shape a distinctly Scottish social security system based on dignity and respect. At all stages we have committed to include the views of people with lived experience of applying for and receiving devolved benefits.

7.66. The range of benefits that are being transferred from the UK Government to the Scottish Government are:

- Personal Independence Payments;
- Carer's Allowance;
- Attendance Allowance;
- Disability Living Allowance;
- Winter Fuel Payments;
- Cold Weather Payments;
- Severe Disablement Allowance;
- Industrial Injuries Disability Benefits;
- Funeral Expenses Payments (to be replaced by Funeral Expense Assistance);
- Sure Start Maternity Grant (to be replaced by Best Start Grant); and
- Discretionary Housing Payments.

7.67. The annual block grant to the Scottish Government will be adjusted to reflect the transfer of responsibility for social security from 2018-19, with additional adjustments made in future years as these social security benefits transfer to Scotland. This transfer process will be undertaken in a phased way with the majority of the social security expenditure (and associated funding) expected to come online from 2021-22 and the years that follow. Initial baseline additions to the block grant will be calculated based on UK Government spending on the area in Scotland in the year prior to devolution (as forecast by the Office for Budget Responsibility) – additions or deductions to the baseline will then be processed based on UK Government spending.

7.68. The Scottish Fiscal Commission will be responsible for the production of independent forecasts to inform the Scottish Government's annual budget.

7.69. The Scottish Government has made a number of clear commitments around the way in which it will manage the social security system in Scotland. This includes announcing that the delivery of the first of the newly devolved benefits – an increased Carer's Allowance – will take place from summer 2018 (and be backdated to April 2018) preparing for the effective delivery of the new Best Start Grant and the new Funeral Expense Assistance by summer 2019, and the introduction of a Young Carer Grant by autumn 2019.

7.70. The anticipated costs associated with these new and enhanced benefits will be met from the Scottish Budget and the anticipated additional costs for the four benefits referred to here are set out in Table 7.3.

TABLE 7.3 – ANTICIPATED ADDITIONAL COSTS OF DEVOLVED BENEFITS

£m	2018-19	2019-20	2020-21	2021-22	2022-23
Carers Allowance Supplement	35.0	37.0	40.0	42.0	44.0
Best Start Grant	-	15.3	15.4	15.4	15.6
Funeral Expense Assistance	-	3.4	3.5	3.5	3.5
Young Carer Grant	-	0.5	0.5	0.5	0.5
TOTAL	**35.0**	**56.2**	**59.4**	**61.4**	**63.6**

7.71. The estimated implementation costs for the new social security system (as set out in the Financial Memorandum to the Social Security (Scotland) Bill) are £308 million over the period to 2020-21. These costs continue to be refined and updated as the iterative transfer of the powers progresses and as a result an agreed profile of spend has not been fixed at this time – but the Minister for Social Security confirmed at the Stage 3 debate on the Bill in April 2018 that she does not expect that figure to increase.

7.72. The Fiscal Framework provides a baseline £66 million for social security administration costs and a one-off amount of £200 million for implementation for all the newly-devolved powers (these amounts are factored into the funding projections contained in Chapter 6 of this document). These amounts represent the financial settlement delivered by the Fiscal Framework, but do not represent the full costs of implementation or administration of the new social security powers. Any additional sums required would need to be funded from the existing Scottish Budget envelope. Any required funds will be allocated as part of the normal Scottish Budget process.

7.73. In addition to the benefits highlighted above, as part of our commitment to tackling child poverty, the Scottish Government has pledged to introduce an Income Supplement for low income families. Further work is being undertaken to develop the policy of the income supplement and assess what the most cost-effective delivery route would be. Decisions on a delivery model will be based on analysis which demonstrates the most effective use of resources in lifting the maximum number of children out of poverty. Funding for the income supplement will be considered through the normal budget process at the appropriate time and no costs have been included as part of the Medium Term Financial Strategy.

7.74. The Scottish Government also remains committed to continue to fully mitigate the deductions to housing support for working age households in the social rented sector who are deemed to be under-occupying their home by the Department for Work and Pensions (DWP), commonly known as the bedroom tax. This is currently achieved through Discretionary Housing Payments. We are committed to using our new powers to abolish the bedroom tax at source through Universal Credit (UC) as soon as practicable and officials had been working with DWP towards achieving this by spring 2019. DWP have recently advised that the changes to the UC system to allow the bedroom tax to be abolished in Scotland would be delayed until May 2020 at the earliest. We expect to spend over £125 million in 2018-19 on social security reform mitigation measures including fully mitigating the bedroom tax to help protect those on low incomes and continuing to mitigate the bedroom tax in full is expected to cost around £55 million each year of the Medium Term Financial Strategy period.

What this means for spending elsewhere

7.75. In addition to these key areas of investment, there are of course a range of wider commitments across all Scottish Government portfolios that will need to be managed from within our available budget. This will include commitments on homelessness, child poverty, concessionary travel, free personal care, supporting the Scottish economy, establishment of the Scottish National Investment Bank, delivering on our climate change ambitions and continuing to deliver the range of public services that we have responsibility for. All of these will require a share of the overall resource budget funding that is available.

Local government funding

7.76. As partners in the delivery of public services, the Scottish Government invests a significant proportion of its budget in supporting local government to provide the essential and high quality services the people of Scotland expect and deserve.

7.77. This funding is split into revenue and capital funding and in 2018-19 the Scottish Government will provide local government with £9,814 million[15] of resource funding and £876 million capital funding. This represents a real terms increase in the level of resource and capital funding available to local government in 2018-19.

7.78. Revenue funding from the Scottish Government to local authorities is made up of three different components:

- general revenue grant – this makes up the majority of the funding support from the Scottish Government for local authority for revenue expenditure;
- non-domestic rates income (NDR) – this tax is collected and retained by local authorities on behalf of the Scottish Government. The Scottish Government guarantees each local authority's needs-based formula share which consists of a combination of the retained NDR income together with the General Revenue Grant paid by the Scottish Government; and
- specific revenue grants – these are provided by the Scottish Government and are tied to spending to support the delivery of specific policy objectives.

15 This includes £34 million agreed at Stage 1 of the 2018-19 Budget Bill which was paid in 2017-18.

Public sector pay

7.79. The Scottish Government recognises the importance of supporting workers across the public sector and in 2017 agreed to remove the 1 per cent public sector pay cap from 2018. The cap had been in force since 2013 as a result of austerity measures. To help the public sector further, the Scottish Government allowed public bodies to bring forward their pay award date, meaning early access to pay awards for many public sector workers.

7.80. The Scottish Government is acutely aware of the impact that inflation and social security cuts have on working households and the removal of this 1 per cent pay increase cap will bring a much needed boost to family finances. Given the prevalence of women employed in the public sector, it should also particularly boost women's income. At the same time the need remains to balance this with what public sector employers can reasonably afford in the context of a Scottish Budget squeezed by a continued UK Government austerity policy.

7.81. Decisions on future pay policy will be taken as part of the annual Scottish Budget process, with the next budget expected in December 2018. To illustrate the potential costs of a progressive approach to pay for public sector workers, we have modelled three theoretical public sector pay award scenarios (see Table 7.4).

7.82. A central scenario assumes a continuation of the 2018-19 pay policy (based on 3 per cent up to £36,500, 2 per cent up to £80,000 and £1,600 above £80,000) in each of the years covered by the modelling. An upper scenario of 4 per cent and a lower scenario of 2 per cent are also modelled. Table 7.4 indicates what the aggregate cost could be for each year for each scenario. The costings of the policy are based on the Scottish Government, the 43 public bodies covered by the pay policy, the NHS, teachers, police, fire and further education (they do not include other local government pay costs).

TABLE 7.4 – MODELLED PUBLIC SECTOR PAY SCENARIOS

	Cost (inc on-costs) – £m			
Forecast Paybill based on Scenarios	**2019-20**	**2020-21**	**2021-22**	**2022-23**
2% per year	248	253	258	264
3%/2% per year	313	321	330	338
4% per year	497	517	537	559

7.83. The importance of carefully controlling pay increases in the public sector remains. The Scottish Government recognises that maintaining employment and fair rates of pay in the public sector is crucial in ensuring Scotland's economy remains strong and that investment in Scotland's public services remains a priority.

7.84. That is why the Scottish Government has continued its commitment to the real Living Wage and why it has maintained its position on no compulsory redundancy. It is also the Scottish Government's view that it is for employers to take their own decisions about pay progression based on business need, maintaining headcount and affordability.

7.85. The Scottish Government acknowledges the contribution of public sector workers in achieving our ambition and delivering on our priorities. That is why the 2018-19 pay policy sets an important direction of travel, subject to available resources, and will continue in future years to strike the balance between affordability and offering a fair deal for staff.

EU funding

7.86. European funding in Scotland is very important to a wide range of sectors and its loss following the UK's exit from the EU could create pressures on Scotland's public finances. The current EU funding round (2014 – 2020) is expected to benefit Scotland by over £5 billion, with the funding programmes supporting jobs, delivering infrastructure, sustaining rural communities, providing valuable support for the farming and fishing industries and delivering research funding for universities.

7.87. Details of successor arrangements to replace these EU funding programmes have yet to be proposed by the UK Government and this continues to create significant uncertainty for those who rely heavily on this investment. In addition to the direct funding that Scotland's people, public services and businesses receive from the EU, there will be wider cost implications of the UK's exit from the EU. These cannot be fully quantified at present as they are dependent on the outcome of negotiations with the EU and on policy decisions yet to be taken, and this creates an uncertain future for Scotland.

7.88. This document does not therefore speculate on the future financial arrangements for post-exit EU funding as these have yet to be set out by and agreed with the UK Government. However, we have been absolutely clear that Scotland must not be any worse off in respect of the funding allocations that replace those currently provided from the EU.

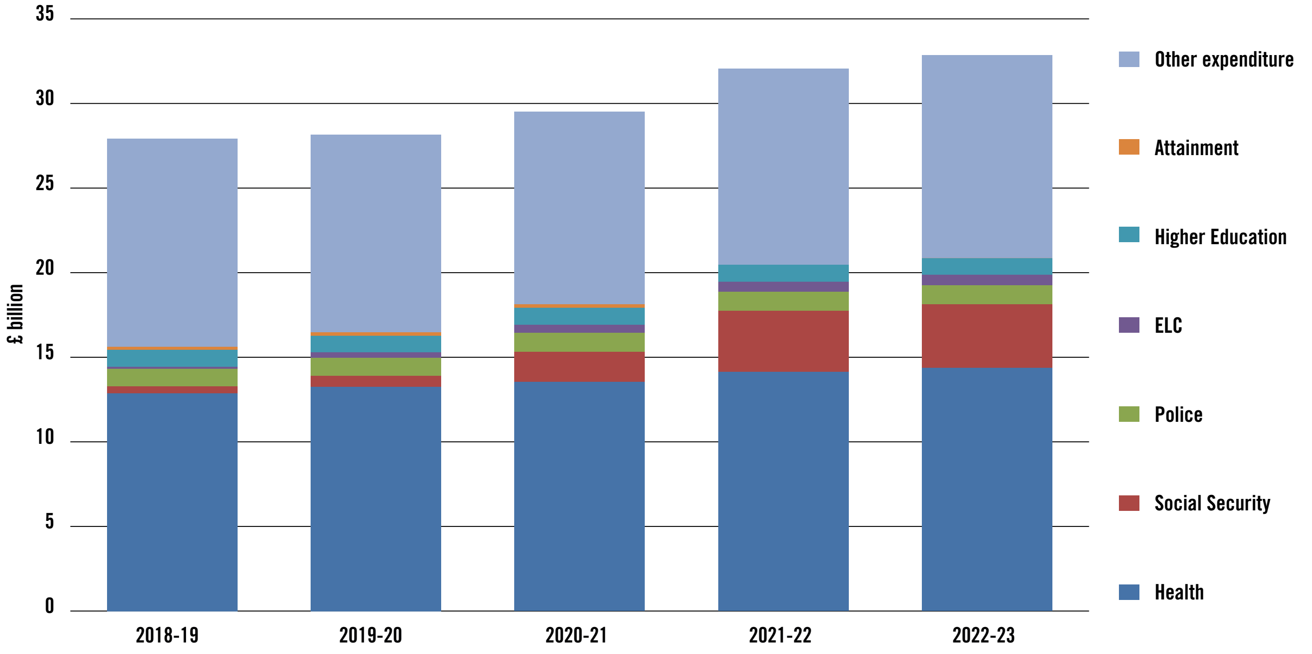
7.89. Despite the UK's exit from the EU not being Scotland's choice, the Scottish Government is working hard to press the UK Government to fully consider its implications for Scotland's public finances, in order to mitigate the worst effects in Scotland and to ensure that Scotland's finances are not detrimentally impacted.

Future shape of the resource budget

7.90. As is the case in any organisation, the setting of budgets to meet the organisation's commitments and obligations requires careful choices, decisions and prioritisation. As part of that process, we will be exploring a wide range of options, looking to deliver efficiency savings across portfolios, carefully prioritising expenditure to ensure that it has maximum impact on delivering key outcomes and priorities, including options to reduce demand through earlier intervention, looking at options for generating additional revenues and considering options for further public service reform to allow us to protect the delivery of public services at a time of financial constraint.

7.91. Looking at the central scenario for the resource budget, and taking account of the key policy commitments outlined above, this shows that in future years the proportion of the overall resource budget that is utilised by these commitments grows from 56 per cent in 2019-20 to 64 per cent in 2022-23, with overall health spending making up between 68-82 per cent of that share across the five year period. All other funding commitments will need to be met from the remainder of the budget. This position is summarised in Chart 7.1 below.

CHART 7.1 – RESOURCE EXPENDITURE CENTRAL SCENARIO



7.92. Clearly, the other two funding scenarios set out in Chapter 6 of this paper result in different shares of the overall budget being committed to these key government priorities. Under the "upper scenario" the proportion of the budget utilised by the commitments grows from 55-62 per cent over the period and under the "lower scenario" it grows from 57-66 per cent. These positions are set out in Chart 7.2 and Chart 7.3.

CHART 7.2 – RESOURCE EXPENDITURE UPPER SCENARIO

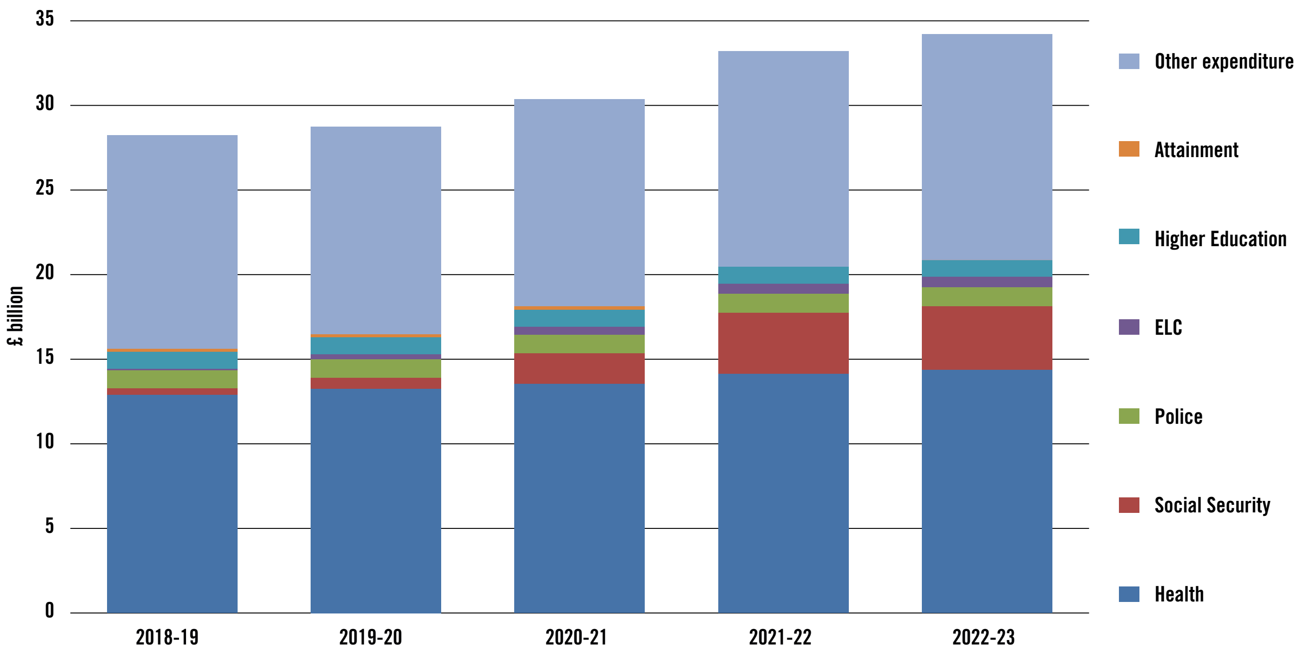
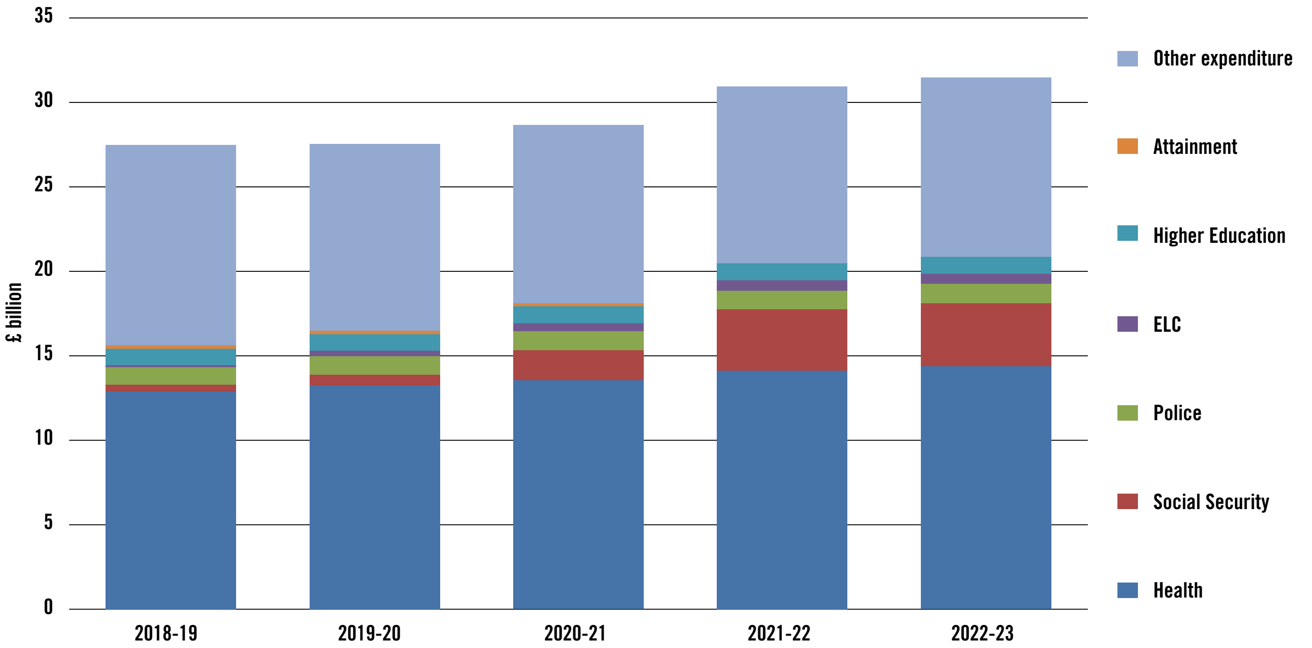


CHART 7.3 – RESOURCE EXPENDITURE LOWER SCENARIO



7.93. In setting the annual budget each year, the Scottish Government has to make careful choices in the prioritisation of commitments and expenditure in order to reach a balanced budget position – which has been delivered in every year since the Scottish Parliament came into existence.

7.94. That process will continue over the years covered within this document, and the decisions that will be taken will include consideration of the balance of funding that will be allocated to the range of priorities, to local government and to support other key public services across Scotland.

7.95. The central funding scenario that is set out in this document indicates that, as is the case in almost all annual budget processes, that decisions around prioritisation of spending, options for increasing revenues, delivery of efficiencies across all budget areas and considering options for reform will need to be undertaken to accommodate these priorities and continue to support high quality public services across Scotland.

7.96. The required level of efficiency will vary depending on the choices that are made as to the extent of reform and reprioritisation that is undertaken, and the final level of funding that is available in each year – all key considerations that will form part of annual budget processes and the next Spending Review. It is, however, clear that even under the most optimistic scenario, if no reprioritisation or reform were agreed and no additional revenues generated, then efficiency savings of 5 per cent per year could be required. While future efficiency targets (rightly) will be challenging, the decisions we take will ensure they are manageable. The Scottish Government's Efficiency Outturn report for the last 3 years indicate that efficiency savings within a range of 3-6 per cent annum are deliverable. The most recent report was published in May 2018.[16]

16 http://www.gov.scot/Resource/0053/00535569.pdf

7.97. The decisions taken in setting the budget will ultimately be dependent on the size of the overall budget for each financial year. We will gain greater certainty on the block grant that the Scottish Government expects to receive from the UK Government through the 2019 UK Spending Review and anticipated levels of tax receipts will continue to be refined.

7.98. This paper provides a range of potential funding scenarios that may emerge in future years. The next budget setting process will be taken at a time when there is greater clarity and certainty on funding levels.

7.99. The Scottish Government will be carefully considering the prioritisation choices required as part of the forthcoming 2019-20 annual budget process (and those that follow) and crucially through the next Spending Review which is expected to take place following the UK Government's Spending Review in 2019. The Scottish Government will set out its approach to the next Spending Review following the conclusion of the UK process next year.

Choices on capital budget and other forms of infrastructure investment

7.100. A crucial foundation to building and supporting a successful and economically buoyant Scotland is maximising investment in infrastructure. This is central to the Scottish economy and the Scottish Government's vision for a prosperous, fair and well-connected Scotland.

7.101. In addition to the capital grant from HM Treasury, there are a number of additional approaches which the Scottish Government uses to support the economy through infrastructure investment.

7.102. This includes utilising borrowing powers to provide additional investment to support the overall capital programme and a revenue-financed hub programme to deliver schools and community health facilities. This provides additional investment and is paid for through resource budgets over a long-term period.

7.103. Non-Profit Distributing (NPD) and revenue-financed hub programmes provide ways of financing additional projects over and above those that could be supported through capital grant alone. Such projects may also have a capital funded element. The revenue-funded element is paid through unitary charges for a period of 25-30 years once the project is completed and is funded from resource budgets.

7.104. The annual estimated unitary charges are published on the Scottish Government website.[17]

7.105. As part of the assumptions that underpin this paper, the Scottish Government currently plans to borrow a further £450 million in 2019-20 to support additional infrastructure investment. Final decisions on future borrowing levels will be taken as part of the 2019-20 and subsequent budget processes. These decisions will be taken annually in light of the economic outlook at the time, weighing the cost of borrowing and the opportunity cost of using up more of the overall £3 billion borrowing limit against the potential benefits of economic stimulus.

17 http://www.gov.scot/Topics/Government/Finance/18232/12308/NPDhubPipelinepayments

7.106. Innovative financing approaches such as Tax Incremental Financing and Growth Accelerator are also used in partnership with the Scottish Futures Trust and local authorities to attract private investment. This is paid for through increases in non-domestic rates or other economic growth metrics and the provision of guarantees to boost investment such as the Rental Income Guarantee Scheme to increase the supply of houses available for rent.

7.107. In order to maximise the government's investment in infrastructure, leverage of other funding is pursued where possible. Examples of this include the City Region Deals where it is estimated that the Glasgow City Region Deal will lever in an additional £3.3 billion of private sector investment into the proposed infrastructure investment programme, the Inverness Deal which is expected to unlock an additional £800 million of private sector investment and the Aberdeen City Region Deal anticipating around a further £500 million of leverage from the private sector and other economic partners.

7.108. Publicly funded social housing and mid-market rented (MMR) housing also attracts matching private investment. There will be variations for individual projects but social housing grant pays approximately half the unit build cost with the remainder being funded by lenders. For many MMR schemes the private finance leverage can be much higher, generating significant investment at scale.

7.109. The Scottish Government's planned investment in infrastructure is set out in the Infrastructure Investment Plan[18] which was published in December 2015 and is refreshed regularly.

7.110. This plan sets out why the Scottish Government needs to invest; how it will invest and what strategic investments are planned over the medium to long term. The following guiding principles are applied to infrastructure investment:

- delivering sustainable economic growth through increasing competitiveness and tackling inequality;
- managing the transition to a more resource efficient, lower carbon economy;
- supporting delivery of efficient and high quality public services; and
- supporting employment and opportunity across Scotland.

7.111. Key commitments in the 2015 Scottish Government Infrastructure Investment Plan include:

- transforming Early Learning and Childcare – expansion to 1,140 hours per year;
- increasing housing supply in Scotland – 50,000 affordable homes;
- creating a new, overarching energy strategy for Scotland;
- delivery of super-fast broadband across Scotland;
- investment in healthcare infrastructure, including the establishment of several new diagnostic and treatment centres;

18 Infrastructure Investment Plan 2015

- continued investment in Scotland's *Schools for the Future* Programme – which will deliver 117 new schools by March 2020; and
- investment to improve transport infrastructure including measures to improve journey times and connections (e.g. through the dualling of the A9), reduce emissions and improve the quality and accessibility of public transport.

7.112. A number of these commitments already have published multi-year profiles of anticipated capital expenditure, including long term resource planning assumptions for the affordable housing programme (out to 2020-21), and capital funding to support the expansion of Early Learning and Childcare (until 2020-21). The profile of these two key commitments is set out in Table 7.5 out to the end of their existing commitment periods. Decisions beyond 2020-21 will be taken in future budget processes once capital budgets for that period have been provided by the UK Government.

TABLE 7.5 – MULTI-YEAR CAPITAL FUNDING ALLOCATIONS

£m	2018-19	2019-20	2020-21	2021-22	2022-23
Affordable Housing Resource Planning Assumptions	532	592	630	-	-
ELC Expansion	150	175	121	-	-
TOTAL	**682**	**767**	**751**	**-**	**-**

7.113. Other capital commitments have a total quantity of investment confirmed for them, but the profile of that expenditure will be confirmed as part of future annual budget processes – examples include expenditure on the R100 Broadband project (£600 million by the end of 2021-22); a four year investment commitment in energy efficiency and heat decarbonisation (£500 million over 2017-18 to 2020-21); a commitment to expand the Golden Jubilee Hospital and develop five elective care centres in Aberdeen, Dundee, Edinburgh, Inverness and Livingston (£200 million); and planned investment in the Building Scotland Fund spread over 2018-19 to 2020-21 (£150 million – of which £70 million was allocated in 2018-19).

7.114. There are also a range of other commitments that are time-bound, but funding profiles for future years beyond 2018-19 have still to be agreed in future Scottish Budgets. These commitments principally relate to individual significant projects (e.g. the final profile of the remaining work to dual the A9) and detailed information on project costs and spend, and anticipated costs for future planned projects in the pipeline is released every six months, including to the Scottish Parliament Public Audit and Post-legislative Scrutiny Committee and is placed on the Scottish Government website.[19]

19 http://www.gov.scot/Topics/Government/Finance/18232/IIP/IIPProjectPipelineUpdate

Local government capital

7.115. The Scottish Government funds capital investment for local authorities through providing a General Capital Grant and a small number of specific grants. In addition to the settlement, other specific grants are paid to local authorities by Scottish Government agencies and other public bodies such as Non-Departmental Public Bodies.

7.116. Specific Capital Grants are paid for specific projects or to fund specific policy objectives. The terms and conditions of each grant are set out in the offer letters for these grants. The General Capital Grant supports the delivery of a council's Single Outcome Agreement and contributes to the National Outcomes. Councils determine how they use these resources to meet local and national prioritiess.

7.117. In 2018-19, the amount of capital funding provided to local authorities was £876 million. The level of local authority capital grant for future years will be considered alongside all other capital requirements in the 2019-20 budget process.

Financial Transaction budgets

7.118. In recent years the Scottish Government has also made use of Financial Transactions (FTs) as part of its overall approach to capital investment. FTs can only be used to support loan or equity investment in bodies outside the public sector. FTs also need to be repaid to the Scottish Government for onward repayment to HM Treasury. Agreement has been reached with HM Treasury that only 80 per cent of the total needs to be repaid, with the remainder available for recycling into other FT funded schemes. The current planned FT repayment profile to HM Treasury is set out at **Annex A**.

7.119. FTs have been used to support a number of housing initiatives, including equity stakes in Help to Buy and other shared equity schemes, as well as innovative financing schemes to increase the supply of homes available for mid-market rent. We have also used FTs to provide loan funding to small and medium enterprises, to provide support for energy efficiency programmes, to establish the Building Scotland Fund and to increase loan funding available for low carbon vehicles.

7.120. The Scottish Government's 2017 Programme for Government committed to establishing a Scottish National Investment Bank to boost Scotland's competitiveness and realise the Scottish Government's ambitions for the economy by providing patient capital to finance growth. This commitment was made on strong international evidence that national investment banks of scale can lead to a strong, positive impact on investment, innovation and long-term economic growth.

7.121. In 2018-19, it was announced that £340 million of FTs would be set aside over 2019-20 and 2020-21 (profile of investment still to be confirmed) to provide the initial capitalisation of the Scottish National Investment Bank. The Implementation Plan for the Bank (which was published in February 2018) indicated that there should be an aim to provide a target level of public capital for the Bank at a minimum of £2 billion over the first 10 years (2019-20 to 2028-29).

7.122. Taking the sums above along with the £150 million of planned investment in the Building Scotland Fund (as a precursor to the establishment of the Bank in 2019), the overall plan is therefore an initial investment in the Bank of almost £0.5 billion in the first three years.

7.123. It is our intention to continue to support similar types of schemes into the future through the use of the on-going profile of Financial Transactions out to 2022-23 (subject to confirmation in the 2019 UK Spending Review that the funding will continue beyond 2020-21).

7.124. The Scottish Government has an ambitious capital expenditure programme and it is simply not possible to progress everything at once due to the size of the overall capital budget. Projects will be prioritised and progressed both to deliver upon the key commitments that have been made and to align with the overall availability of the approximately £4 billion per year of capital funding in the Scottish Budget.

7.125. Decisions on the content of the capital programme for 2019-20 and beyond will be made up of a combination of expenditure on maintaining our existing asset stock, continuation of projects that are currently underway and the commencement of new projects. Final details of the content of the programme (for both capital and Financial Transactions) will be confirmed in the 2019-20 Scottish Budget, in December 2018.

8 Conclusions

8.1. This financial strategy describes the Fiscal Framework, policy environment and spending pressures that the Scottish Government and its public services face over the next five years, and the financial consequences that arise from specific policy interventions.

8.2. The data and modelling that underpin this document are based on the information available in May 2018 and will be subject to change as new and updated information becomes available.

8.3. This forward look does not set out any new decisions or policy commitments, particularly in relation to the public sector, and only seeks to explore and explain the range of factors and variables which require consideration by the Scottish Government when making financial decisions and undertaking longer-term budget planning.

8.4. There are a number of strategies available to be adopted to meet the financial challenges ahead and these will include:

- continuing our core focus of growing the economy and our tax base;
- securing additional or increased revenues and income to support the overall budget;
- reprioritising expenditure in areas across the budget; and/or
- reforming how public services are delivered across Scotland in a manner that maintains or improves outcomes in ways that moderate future demand pressures on these services.

8.5. The use of each of these options will be actively considered and explored by the Scottish Government as it develops the 2019-20 budget and those that follow.

8.6. Consideration of the key aspects of this document and the options available to address the financial circumstances that we face are relevant not only for the current Scottish Government (and for any future Scottish Government), but also for the Scottish Parliament as a whole as it undertakes its scrutiny of Government decisions.

8.7. The next major considerations of spending will be made by:

- the Scottish Government as it develops the 2019-20 Scottish Budget; and
- the Scottish Parliament in undertaking its budget scrutiny during 2018 and when it considers the 2019-20 Scottish Budget later this year.

Annex A Financial Transactions Repayment Profile

Annual Scottish Government return to HM Treasury (July 2017)

REPAYMENT PROFILE AT 31 MARCH 2017		
Year	**£m**	**%**
By 2019-20	51	6
2020-21	15	2
2021-22	22	3
2022-23	37	5
2023-24	37	5
2024-25	48	6
2025-26	88	11
2026-27	106	13
2027-28	71	9
2028-29	56	7
2029-30	24	3
2030-31	28	4
2031-32	26	3
2032-33	26	3
2033-34	26	3
2034-35	27	3
2035-36	26	3
2036-37	25	3
2037-38	15	2
2038-39	15	2
2039-40	15	2
2040-41	1	0
2041-42	6	1
2042-43	21	3
2043-44	1	0
TOTAL	**812**	**100**

Note: Figures may not sum due to rounding.

Annex B Further Detail on Economic Modelling

Constructing the central scenario

B.1. The central scenario of Scottish Government funding is built up by forecasting separate elements of funding and then aggregating these to produce a path for the total level of potential funding. The elements of income are:

- the resource budget limit (excluding new social security funding);
- new social security funding;
- the capital budget limit;
- Financial Transactions;
- net Block Grant Adjustment (BGA) income;
- non-domestic rates income; and
- capital borrowing.

B.2. For the years up to and including 2019-20, the central forecast is taken from the Scottish Government Draft Budget 2018-19, adjusted for Scottish Rate Resolution tax changes. Beyond 2019-20, the approach to forecasting each component is set out below.

Fiscal resource budget limit excluding social security

B.3. In general, the fiscal resource budget limit is assumed to grow in line with overall UK Resource Departmental Expenditure Limit (RDEL) from the UK Office for Budget Responsibility (OBR) March 2018 Economic and Fiscal Outlook.[20] However, there are a small number of additional sources of income which are treated separately. These relate to: non-domestic rates; Scotland Act Implementation; the Migrant Surcharge; the Queen's and Lord Treasurer's Remembrancer (QLTR); and the Rail Resource Grant. Separate forecasts of these sources are available out to 2022-23. Therefore, the fiscal resource budget limit is projected excluding these items, and then combined with the forecast of these individual elements to produce the overall projection.

New social security funding

B.4. The forecast for social security funding is based on projections produced by Scottish Government analysts.

Capital budget limit

B.5. UK spending plans for capital have been set out to 2020-21, one year further than for resource, so a figure is available for the capital budgets which is used as the baseline for future growth. The capital budget limit is then assumed to grow in line with the overall UK Capital Departmental Expenditure Limit (CDEL) from the OBR March 2018 forecast.

Financial Transactions

B.6. Financial Transactions in 2020-21 are expected to fall in line with plans set out at the last UK Spending Review. Beyond 2020-21, there is no new lending and Financial Transactions are kept constant in cash terms. The risk around loss of Financial Transactions is reflected in the scenarios for the capital budget.

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20 http://cdn.obr.uk/EFO-MaRch_2018.pdf

Net Block Grant Adjustment

B.7. Beyond 2019-20, the net Block Grant Adjustment for Scotland is forecast to grow in line with the SFC's forecast for devolved taxes, relative to the OBR's forecast for the rest of the UK.

Non-domestic rates income

B.8. Non-domestic rates income is forecast to grow in line with the SFC's forecast.

Capital borrowing

B.9. Capital borrowing powers are assumed to be fully utilised in 2019-20, but no capital borrowing is currently planned after this.

B.10. This approach is summarised below in Table B.1.

TABLE B.1 – FORECASTS OF INDIVIDUAL INCOME COMPONENTS (£ MILLION)

	2019-20	2020-21	2021-22	2022-23
	Latest estimate	Forecast using:		Final estimate
Total budget excl non-cash	£33,024	Sum of individual series		£37,555
Fiscal resource budget limit	£27,440	UK departmental resource spend[1]		£28,709
New social security funding	£507	Scottish Government projections		£3,602
Capital budget limit	£3,926	UK departmental capital spend[1]		£4,226
Financial Transactions	£519	2020-21 budget figure then held flat		£505
Net Block Grant Adjustment	£182	Relative devolved tax growth per head		£513
Capital borrowing	£450	No decision on borrowing beyond 2019-20		£0

[1] Source: OBR, series Public Sector Current Expenditure (PSCE) in RDEL and Public Sector Gross Investment (PSGI) in CDEL

Assumptions on historical performance and uncertainty

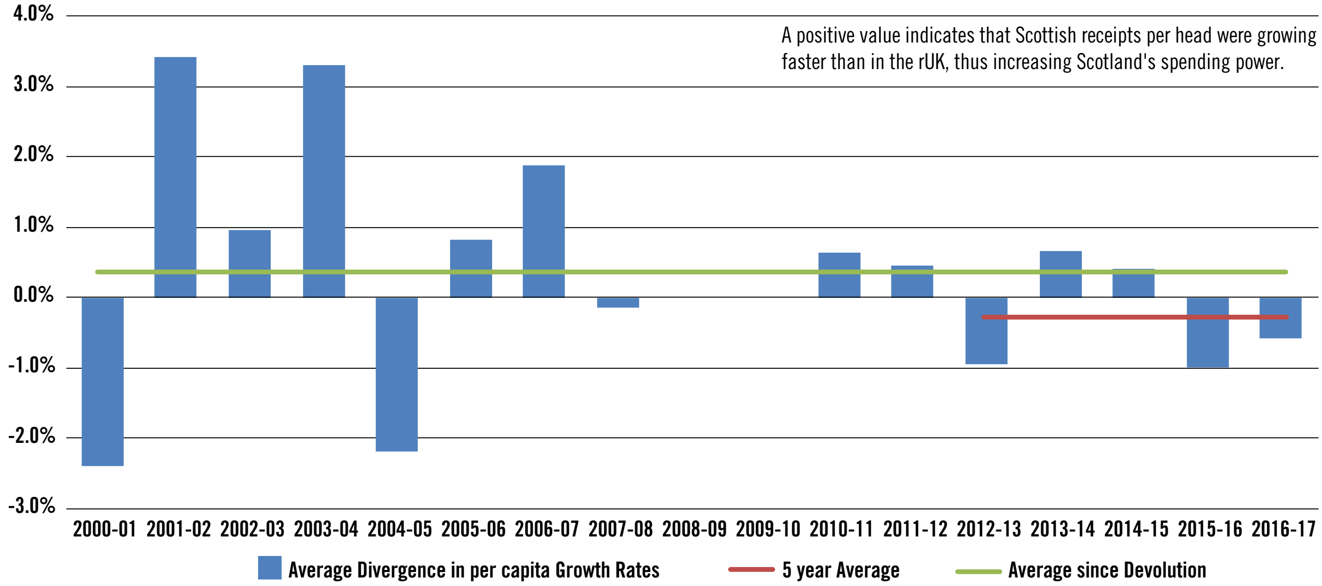
B.11. The impact of devolved taxes on the Scottish Budget is determined by changes to the accompanying Block Grant Adjustment (BGA). As the BGA grows in line with tax receipts per head in the rest of the UK, the Scottish Budget will only be better off if Scotland can grow its tax revenues per head more quickly than the rest of the UK.

B.12. To understand the risks around this, we consider how tax receipts in Scotland have performed historically. The section below shows how this approach is implemented using income tax as an example.

B.13. As indicated in Chart B.1, non-savings and non-dividend (NSND) income tax liabilities per head have grown faster in Scotland than the rest of the UK in nine out of the 15 years for which data is available. However, this is partly due to a relatively strong performance in the years immediately following the 1999 devolution settlement.

B.14. Two patterns can be observed from Chart B.1. Firstly, the divergence between tax per head growth appears to have decreased quite significantly and has not exceeded 1.0 percentage points since 2009-10. Secondly, looking at the performance over the past five years, the UK has grown more strongly in three out of the past five years, with the differential averaging -0.3 percentage points over this period.

CHART B.1 – DIFFERENTIAL GROWTH IN INCOME TAX LIABILITIES



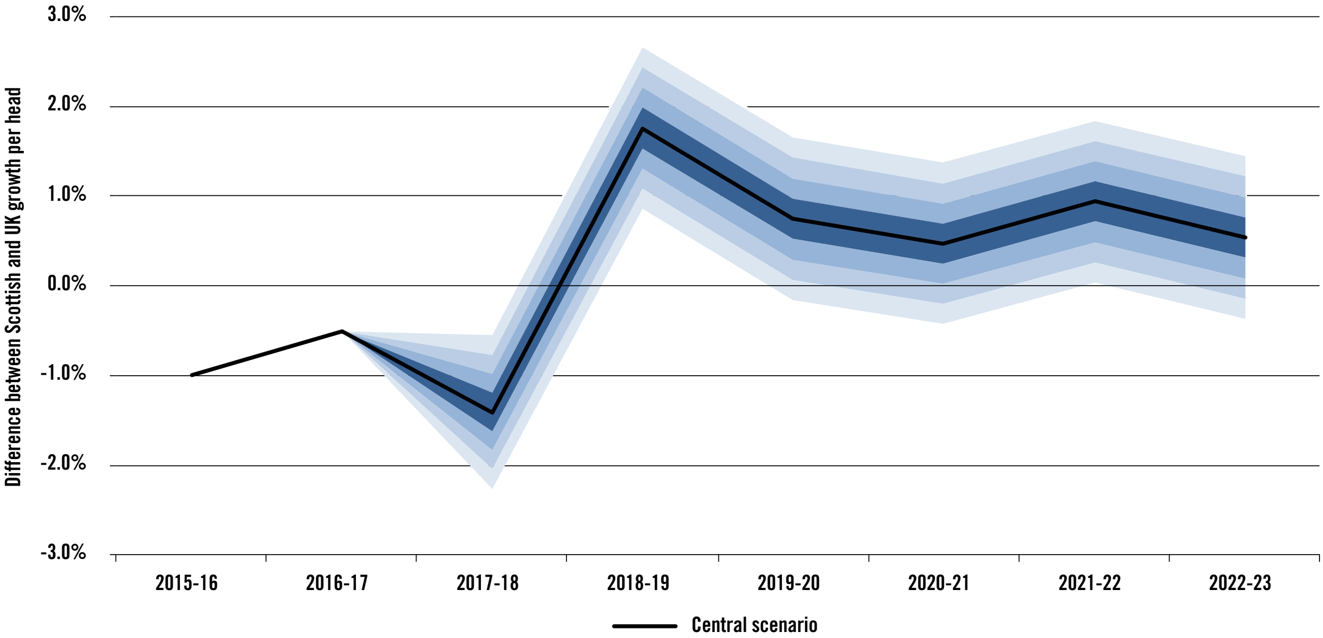
Source: GERS 2016-17. Figures up to and including 2014-15 are provided by HMRC. Figures for 2015-16 and 2016-17 are OBR estimates.

Uncertainty analysis

B.15. The OBR and the Bank of England (BOE) both use fan charts to present uncertainty around their central forecasts.

B.16. Chart B.2 illustrates Scottish Government estimated uncertainty about the SFC's central forecast for the difference in Scottish and UK growth in income tax liabilities. The SFC currently forecasts that per person NSND income tax receipts in Scotland will grow faster than in the rest of the UK from 2018-19. This is primarily due to different choices about the future path of income tax policy in Scotland. For example, in the chart below, Scottish receipts are forecast to grow faster than the rest of the UK by 1.8 percentage points in 2018-19 largely due to the Scottish Government's decision to introduce a new five band income tax regime in that year.

CHART B.2 – UNCERTAINTY AROUND DIFFERENTIAL GROWTH IN NSND INCOME TAX LIABILITIES

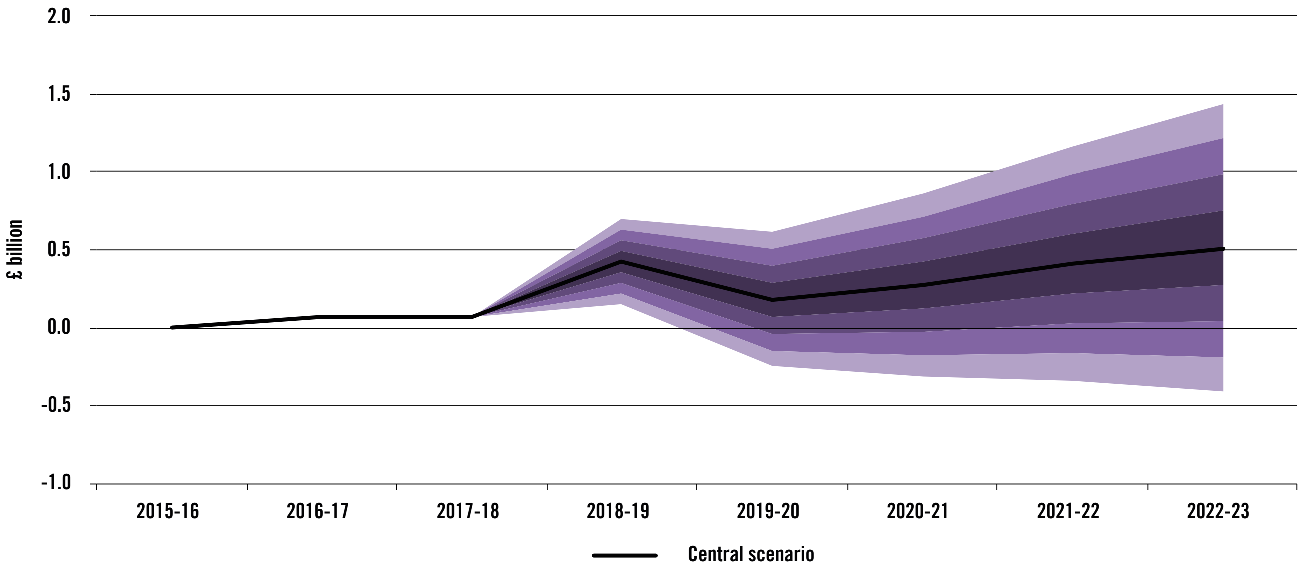


B.17. A variety of ways exist to estimate this uncertainty. The approach used by the OBR is to draw lessons from the accuracy of previous forecasts as a guide to the accuracy of any current forecast. However, as forecast errors are not available for Scottish income tax, we currently take an alternative approach in estimating the level of uncertainty. This approach will be reviewed in future, and it is expected that further information will be built into the modelling in future years as information and understanding of the uncertainty in the Fiscal Framework increases.

B.18. The Scottish Government modelling approach is to base the future uncertainty on the historical variation in the data. Looking at the range of different values that have occurred in previous years allows us to construct a range of possible values that may occur in the future. This approach has a number of advantages. First, the process is relatively non-subjective, as the future values are drawn from available historical data. Second, we can adjust the model to capture the fact that uncertainty grows as the length of the forecast horizon expands. We base this adjustment on work undertaken by the OBR, who allow the variance of their distributions to expand year-on-year.

B.19. This is illustrated in Chart B.3 which shows the impact and level of uncertainty for Scotland's net spending power in relation to all the devolved taxes. Forecasts inevitably become more uncertain the further we look ahead. This means that by 2022-23 Scotland's net spending power could be between -£414 million and +£1.4 billion, with the SFC's central estimate at £513 million (based on Scottish Government forecasts of the BGA and the SFC central tax forecasts).

CHART B.3 – FORECAST OF SCOTLAND'S SPENDING POWER: NET BLOCK GRANT ADJUSTMENT



Annex C Illustration of Alternative UK Government Spending Paths

C1. This section discusses the path for UK fiscal policy (as announced in the UK Government's Spring Statement 2018) and illustrates alternatives that would keep the public finances on a sustainable path, while also allowing for an increase in investment in public services above the levels currently planned by the UK Government.

Alternative Spending Paths

C2. As an illustration, two alternative paths for public spending are set out below:

1. Use the fiscal space available within the existing fiscal rules in full. Under current UK Government plans there is a degree of flexibility to increase spending while remaining on track to meet the Chancellor's fiscal mandate to reduce the structural deficit below 2 per cent of GDP and have net debt falling as a share of GDP in 2020-21.
2. Balance the current budget in 2021-22. This means that public sector receipts are sufficient to fund day to day spending on public services, but that limited borrowing is still undertaken to support capital investment, reflecting the fact that such expenditure will both produce an asset which will generate benefits for future generations and increase the country's productive capacity.

C3. Using the available fiscal space in full (Example 1) could free up around £60 billion over the next five years, relative to the UK Government's current plans, while remaining on course to meet the UK Government's 2020-21 fiscal targets.

TABLE C.1 – EXAMPLE 1 – ADDITIONAL FUNDING UNDER CURRENT FISCAL MANDATE

Additional Funding (£bn)	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative
UK	8	12	15	19	7	60
Scotland	0.6	0.9	1.2	1.5	0.5	4.7

C4. Example 2 could release up to £86 billion over the next five years, relative to the UK Government's current plans, with Scotland's share of this estimated at almost £7 billion over the same period.

TABLE C.2 – EXAMPLE 2 – ADDITIONAL FUNDING UNDER BALANCED CURRENT BUDGET IN 2021-22

Additional Funding (£bn)	2018-19	2019-20	2020-21	2021-22	2022-23	Cumulative
UK	13	17	23	26	7	86
Scotland	1.0	1.4	1.8	2.0	0.6	6.8

C5. The UK Government's recent commitment to increase NHS pay, which is not yet incorporated above, shows that there is scope for fiscal policy to be eased within the existing fiscal rules.

Implications for public finances

C6. Charts C.1 and C.2 illustrate the potential path for the UK public finances under the current UK Government's plans compared to the alternative spending plans detailed above.

C7. Under the two examples outlined above, the deficit does not exceed the pre-crisis average of 2.4 per cent and debt, as a share of GDP, starts falling from 2020-21 onwards.

CHART C1: IMPACT OF ALTERNATIVE SPENDING PATHS ON DEFICIT

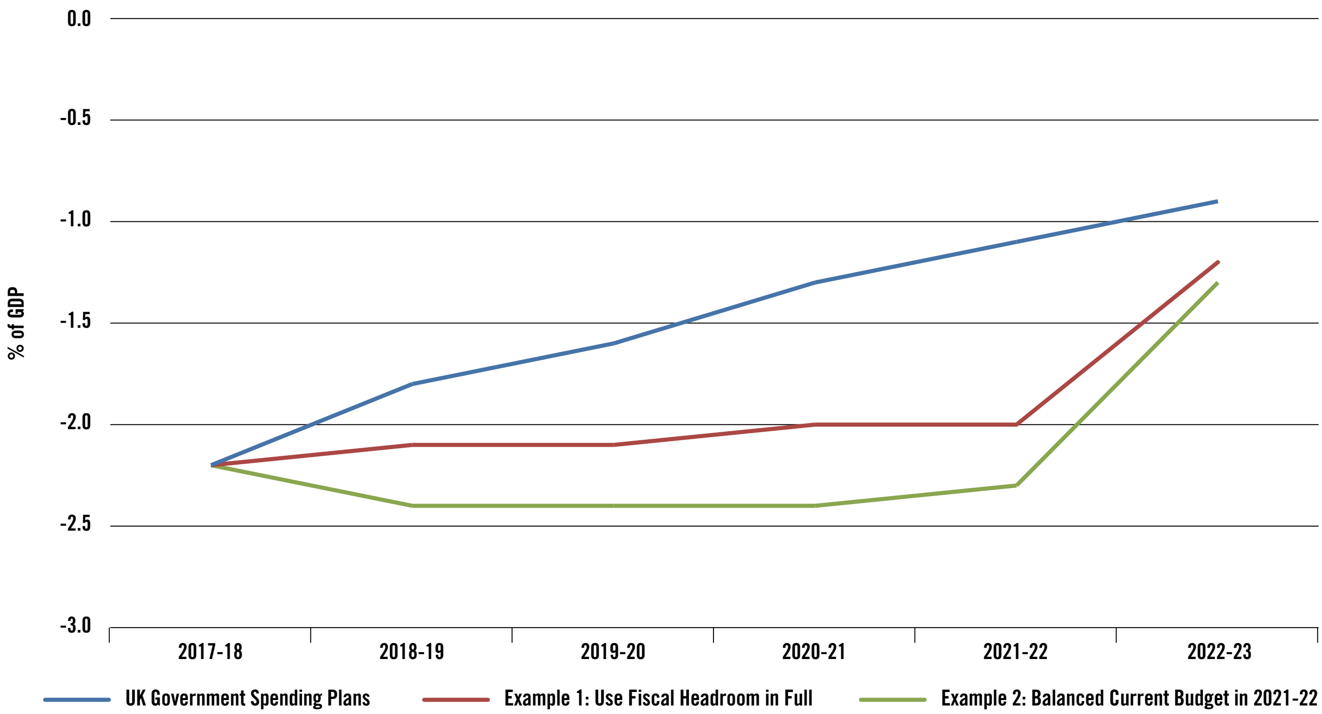
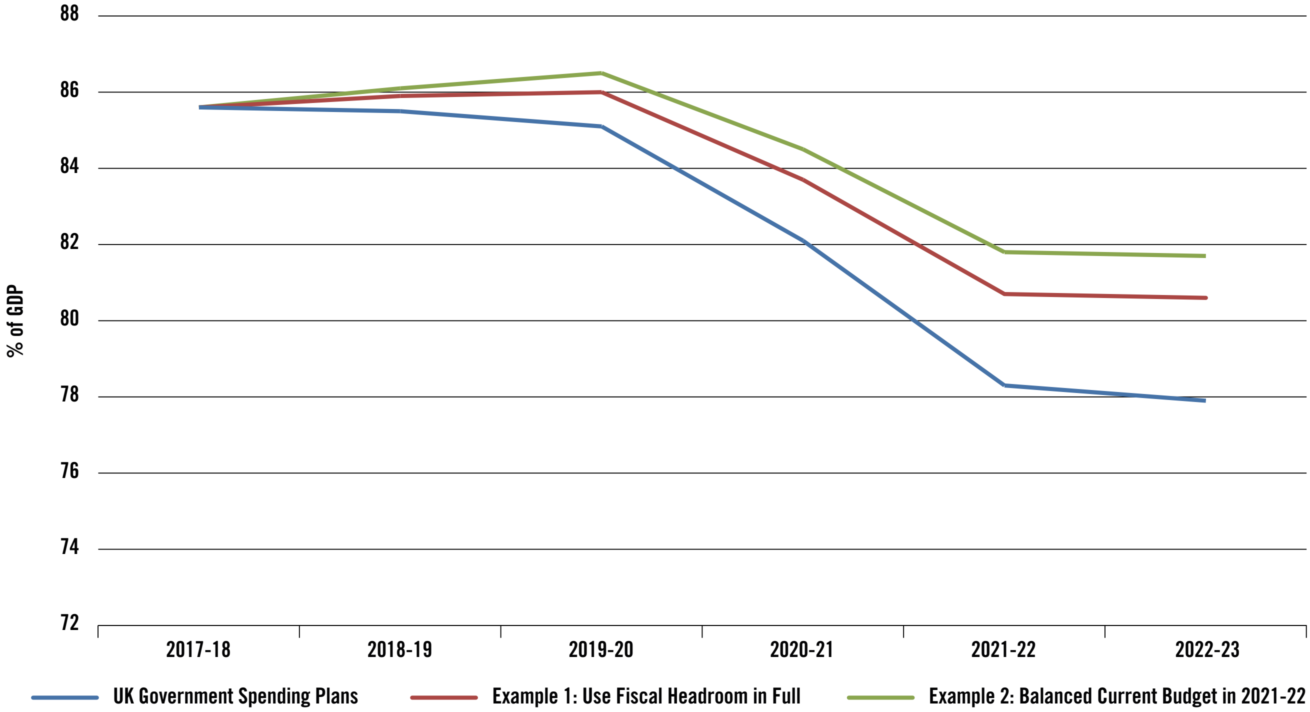


CHART C.2 – IMPACT OF ALTERNATIVE SPENDING PATHS ON DEBT



Constructing the alternative spending paths

C8. The UK Government's plans for borrowing and debt, as published in the Spring Statement 2018 (OBR Economic and Fiscal Outlook (EFO), Table 4.40), have been used as the baseline for the analysis. In addition, the following assumptions were made:

- under Example 1, we assume that the UK Government utilises the headroom of £15.4 billion in full in 2020-21 and the deficit is reduced more gradually to its target of 2.0 per cent in that year. Beyond this point, an illustrative path for public spending is chosen which ensures that debt falls as a share of GDP;
- under Example 2, we assume that the current budget is in balance in 2021-22, allowing for an extra £27 billion of borrowing in that year, with the deficit falling gradually to achieve this target. Beyond this point, an illustrative path for public spending is chosen which ensures that debt falls as a share of GDP; and
- the analysis incorporates the impact that alternative fiscal paths would have on public sector debt interest costs. This is taken into account in the analysis by multiplying the additional cumulative borrowing in each year by the market gilt rate (EFO, Table 4.1). The spending figures presented in Tables C.1 and C.2 are therefore net of the change in debt servicing costs.

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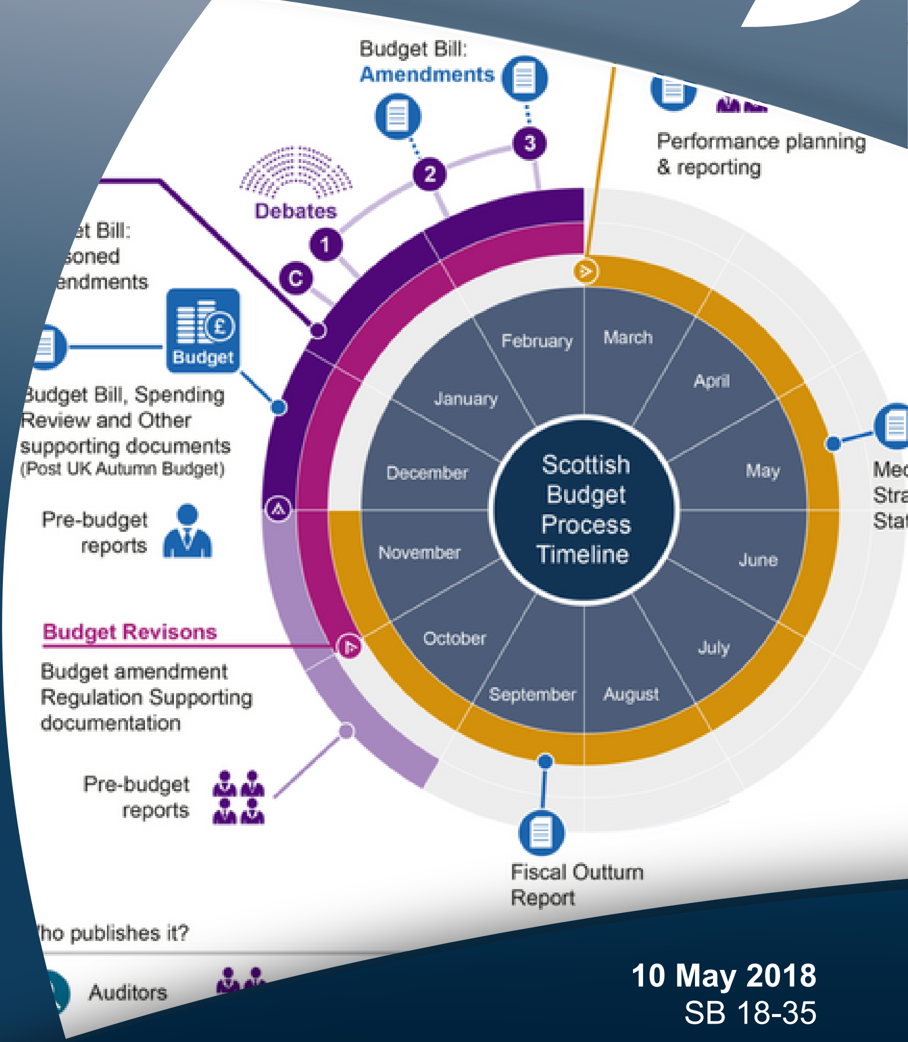
Guide to the new Scottish budget process

Ross Burnside

On 8 May 2018, the Scottish Parliament agreed to changes to the Written Agreement between the Finance and Constitution Committee and the Scottish Government. The Written Agreement sets out the administrative arrangements for the annual budget process and other related budgetary matters. This briefing summarises the new Budget process.



10 May 2018
SB 18-35

Contents

Executive Summary

The make-up of the Scottish budget has substantially changed in recent years as a result of new powers being devolved to the Scottish Parliament. Under Scotland Act 1998, the vast majority of the Scottish budget flowed from a block grant from Westminster. With Scotland Acts 2012 and 2016, the share of the Scottish budget's discretionary spending power comprised from taxes raised in Scotland will increase to approximately 50%.

This devolution of new taxation and welfare powers to the Scottish Parliament has added considerable complexity to the Scottish budget: for example, in terms of the composition of the initial Scottish budget and how it is subsequently reconciled; and the introduction of new borrowing powers.

The operation of these new powers is governed by a Fiscal Framework agreement between the Scottish and UK Governments.

The Finance and Constitution Committee considered that these new powers devolved by Scotland Act 2012 and Scotland Act 2016 required a fundamental review of the Scottish budget process. A Budget Process Review Group was subsequently established and published its final report in June 2017 making a number of recommendations for revising the budget process.

Central to these recommendations is a budget process with the following four core objectives:

- To have a greater influence on the formulation of the budget.
- To improve transparency and raise public understanding and awareness of the budget.
- To respond effectively to new fiscal and wider policy challenges.
- To lead to better outputs and outcomes as measured against benchmarks and stated objectives.

The Finance and Constitution Committee and the Scottish Government have both agreed to accept and implement the Budget Process Review Group recommendations in full.

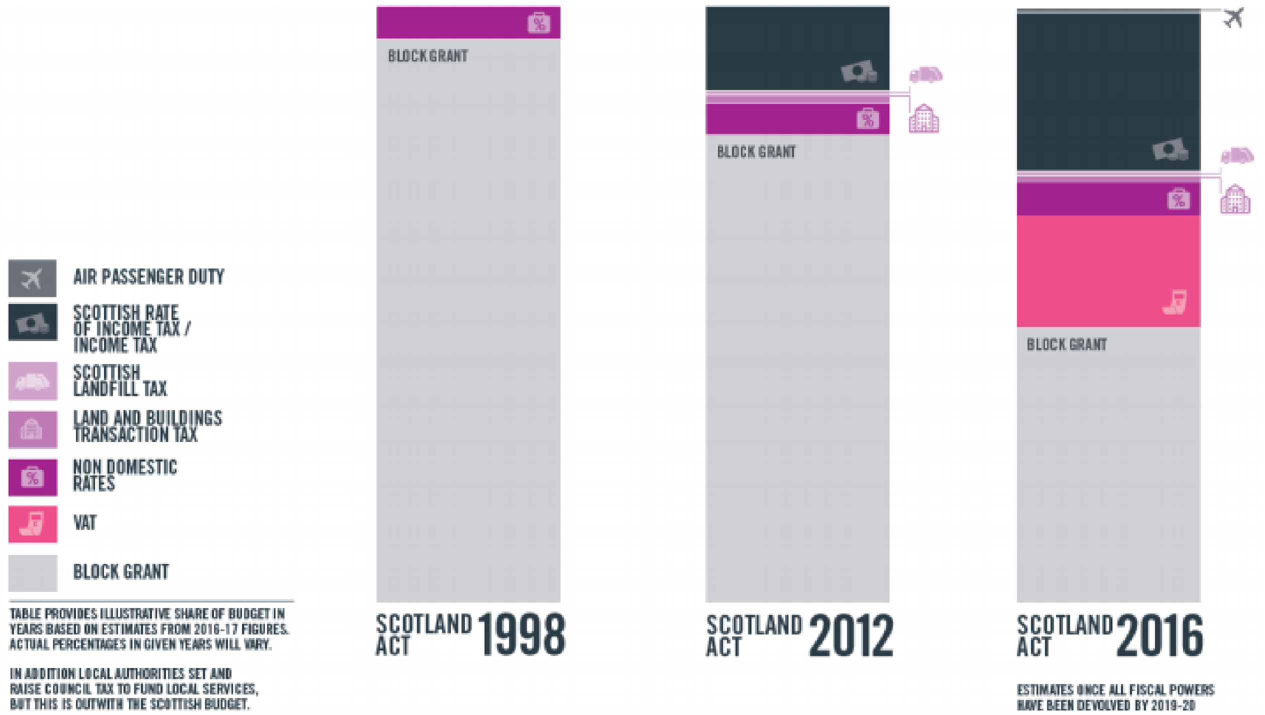
On Tuesday 8 May 2018, the Scottish Parliament voted to accept a new Written Agreement between the Finance and Constitution Committee and the Scottish Government, setting out the administrative arrangements for the annual budget process and other related budgetary matters.

This briefing summarises the key elements of the new Scottish budget process.

The context for a new budget process

In recent years, new tax and welfare powers have been added to the Scottish Parliament's responsibilities. This will result in the Scottish budget moving from a situation where the vast majority of its discretionary spending power came from a block grant from Westminster (under Scotland Act 1998) to a situation where approximately half of the spending power of the Scottish budget comes from taxes raised in Scotland (under Scotland Act 2016).

Figure 1: The changing composition of the Scottish budget



Budget Process Review Group, Final Report

These changes mean that the size of the Scottish budget is now directly linked to Scottish economic performance, and through the workings of the Fiscal Framework, Scottish economic performance relative to the rest of the UK, as well as Scottish Government policy decisions.

It was in light of these new powers that the Parliament's Finance and Constitution Committee established a Budget Process Review Group (BPRG). The BPRG was made up of Scottish Parliament and Government officials and external experts and had the following remit:

> “ To carry out a fundamental review of the Scottish Parliament’s budget process following the devolution of further powers in the Scotland Act 2012 and Scotland Act 2016. To bring forward proposals for a revised budget process which are consistent as far as possible with the principles of the Financial Issues Advisory Group for consideration by the Finance Committee and the Cabinet Secretary for Finance and the Constitution.”

The BPRG published its final report on 30 June 2017, and made a number of recommendations for revising the budget process. The Finance and Constitution

Committee and the Scottish Government have both agreed to accept and implement these recommendations in full.

On 8 May 2018, the Scottish Parliament debated and agreed the revised Written Agreement on the budget process between the Scottish Government and the Finance and Constitution Committee. Speaking during the debate, the Convener and Deputy Convener emphasised the need for a cultural shift in order to deliver the new budget process. The Convener of the Committee, Bruce Crawford MSP said of the new process that:

> “ It will require significant collaboration between the Government, the Parliament and Scotland’s public bodies to deliver such an ambitious set of recommendations, but perhaps the biggest challenge that we as politicians face will be cultural. We need to move from a position of judging success based on the number of police on the streets or the number of nurses in our national health service to one that involves measuring the sustainable outcomes that are achieved by public spending in Scotland. [1] ”

The debate on the Written Agreement was followed by a parliamentary motion on behalf of the Standards, Procedures and Public Appointments Committee [2] proposing changes to standing orders [3] , to ensure that the Parliament’s rules accurately reflect the budget process. Like the motion on the Written Agreement, this motion was agreed to without division.

The FIAG principles

As mentioned above, the BPRG remit was to bring forward proposals for a revised budget process which is consistent "as far as possible" with the principles of the Financial Issues Advisory Group (FIAG). So what were these principles?

FIAG was established to advise the Consultative Steering Group (CSG) set up in advance of the establishment of the Scottish Parliament to develop the principles by which the Parliament and Executive would operate. FIAG consisted of public finance experts and senior civil servants and published its report in 1998. [4]

The FIAG report recommended that "any Scottish budgeting system is capable of:

- providing opportunities for the Parliament to comment on expenditure priorities and to influence the Governments' preparation of budgets;
- providing the opportunity for the public to have the opportunity to put their views to subject committees, as well as individual MSPs at an early stage in the process;
- providing sufficient time for the Parliament to consider and debate proposals fully;
- providing balance between the requirement for parliamentary scrutiny and the needs of the Executive;
- providing some degree of certainty so that on-going activities can continue without prolonged uncertainty;
- providing an efficient mechanism to deliver motions to be debated by the Parliament;
- providing a meaningful role for subject committees and the Finance Committee;
- delivering timeous decisions on tax varying powers and the budget (as well as the interim spending approval and budget amendments);
- engaging all MSPs;
- facilitating the Executive's formulation of proposals; and
- providing for the right of amendment."

FIAG recommended that the Scottish budget process should represent a departure from the UK Parliament's budget process. The report argued that:

> " the Westminster system has not succeeded in promoting a constructive discussion of budgetary and expenditure priorities or a sensible dialogue between Executive and Parliament on these issues. As a result, the UK Parliament has no meaningful input and the approval of expenditure is made ex post facto. So, although the present system ensures that financial information is presented, it does not encourage the House and its Committees to make the best use of that information."

FIAG argued that the Scottish Parliament should have more of a say in setting priorities for expenditure, and proposed an annual three stage process:

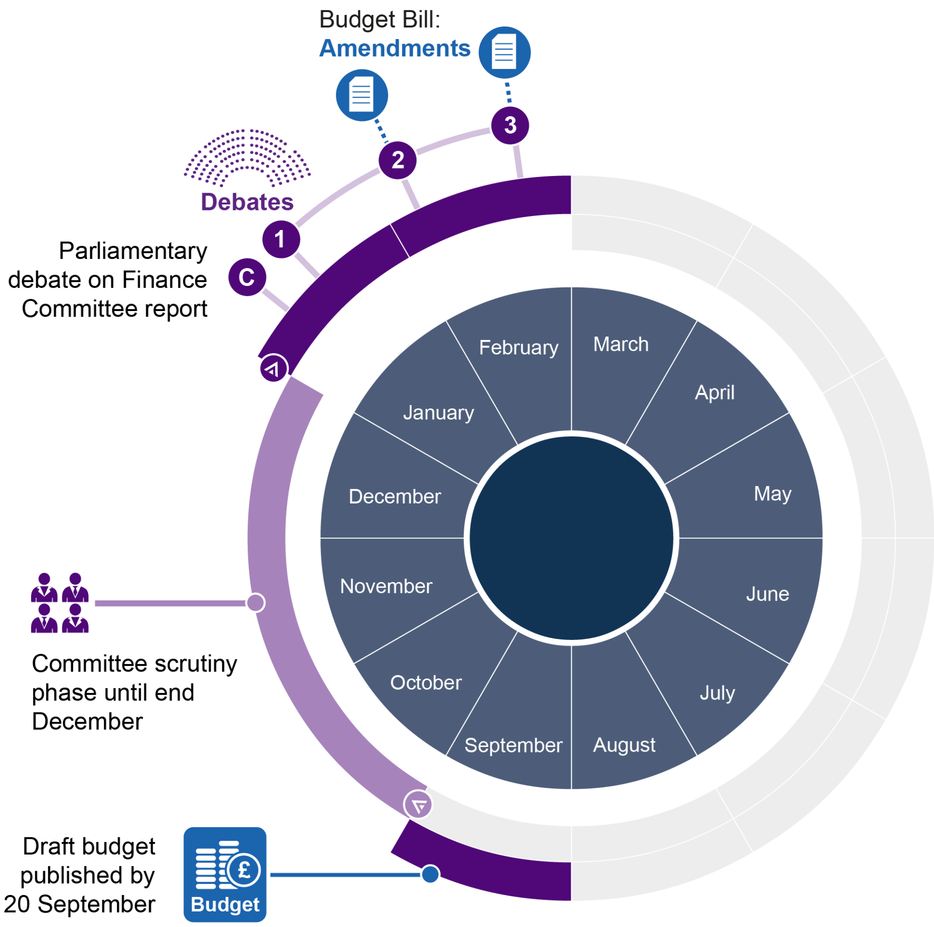
- Stage 1 (April – June): discussion of strategic priorities.
- Stage 2 (Sep – Dec): consideration of Scottish Government’s draft budget.
- Stage 3 (Jan – Feb): scrutiny of the Budget Bill.

The effectiveness of the previous budget process

The BPRG considered the effectiveness of the previous budget process and made a number of observations in its final report.

The BPRG noted that Stage 1 of the original budget process (discussion of strategic priorities) had never really operated as intended by FIAG and had "essentially been abandoned". As such, the previous process had concentrated scrutiny in the period after publication of the Draft Budget in September to the Bill being passed in February (Figure 2).

Figure 2: The previous Scottish Budget Process



The final report of the BPRG noted weaknesses in the previous budget process around:

- **Timing**: the length of time available for budget scrutiny.
- **Scope**: the scope of budget scrutiny.
- **Influence**: the level of parliamentary influence on the budget.

On **timing**, the key problem with the previous process is that it did not address the interaction of the UK Budget timetable with the Scottish Budget timetable, where timings of UK general elections, Budgets and Spending Reviews often necessitated moving the publication of the Scottish Draft Budget to later in the year. This resulted in the time available for scrutiny of Scottish spending often being truncated.

This issue became more significant when, on 23 November 2016, the Chancellor announced that the Autumn Statement would become the 'Autumn Budget' and the main fiscal event at UK level announcing changes for the following year, and that the March Budget would become the 'Spring Statement'.

Given the new powers and the interaction of UK and Scottish Budgets through the block grant and block grant adjustments (discussed in 'The New Financial arrangements section'), and with the main UK fiscal event being moved to November each year, the BPRG felt the issue of timing needed to be addressed.

On **scope**, the BPRG noted that parliamentary scrutiny was too narrow with an annualised focus on the allocations for the next financial year compared with the current year. This had contributed to a "short-term approach" with an "over-emphasis on 'winners and losers' year-on-year" and "little consideration of long-term trends" and whether spending was effectively delivering desired outcomes.

On **influence**, the BPRG noted that parliamentary scrutiny under the previous process did not start until after the draft budget had been published. Once the Scottish Government agreed and presented its draft budget, "there is little evidence of any substantial change to the spending proposals resulting from the budget process." Changes to the Budget tend to arise as a consequence of bilateral negotiations between political parties and the Cabinet Secretary for Finance and the Constitution, rather than as a result of Committee scrutiny. Changes also tend to involve additional funding rather than amending spending plans.

The BPRG noted that:

> “ the existing budget process is not delivering the opportunity for the Parliament “to influence the Executive’s preparation of budgets” as envisioned by FIAG. The Group’s view is that this is unsurprising given that parliamentary scrutiny of the budget begins after the Government has set out firm and detailed spending proposals. Prior to that there is little public consultation or transparency in the formulation of the budget. It is also unclear to what extent the Government consults with the public bodies in formulating the budget.”

The BPRG recommendations for a new parliamentary scrutiny process are discussed in the section on the new budget scrutiny process.

The new financial arrangements

The new budget process needs to accommodate new financial arrangements arising from Scotland Acts 2012 and 2016. With each new power introduced to the Scottish Parliament, there is an adjustment made to the size of the block grant from Westminster:

- a reduction in the block grant equivalent to the income foregone by the UK Exchequer for taxes devolved to Scotland
- an increase in the block grant equivalent to the spending foregone by the UK Exchequer for social security spending devolved to Scotland.

These block grant adjustments (BGAs) are governed by a Fiscal Framework Agreement between the UK and Scottish Governments. [5] This document sets out a series of rules and arrangements to operationalise the new powers.

The Fiscal Framework

Key elements of the Fiscal Framework include:

- how the Scottish block grant will be adjusted to reflect the transfer of fiscal responsibilities
- forecasting arrangements and responsibilities
- arrangements for revenue borrowing and cash management to smooth revenue volatility and differences between revenue forecasts and outturn
- capital borrowing powers
- a range of other issues including administration costs, data sharing arrangements, dispute resolution, and implementation and review.

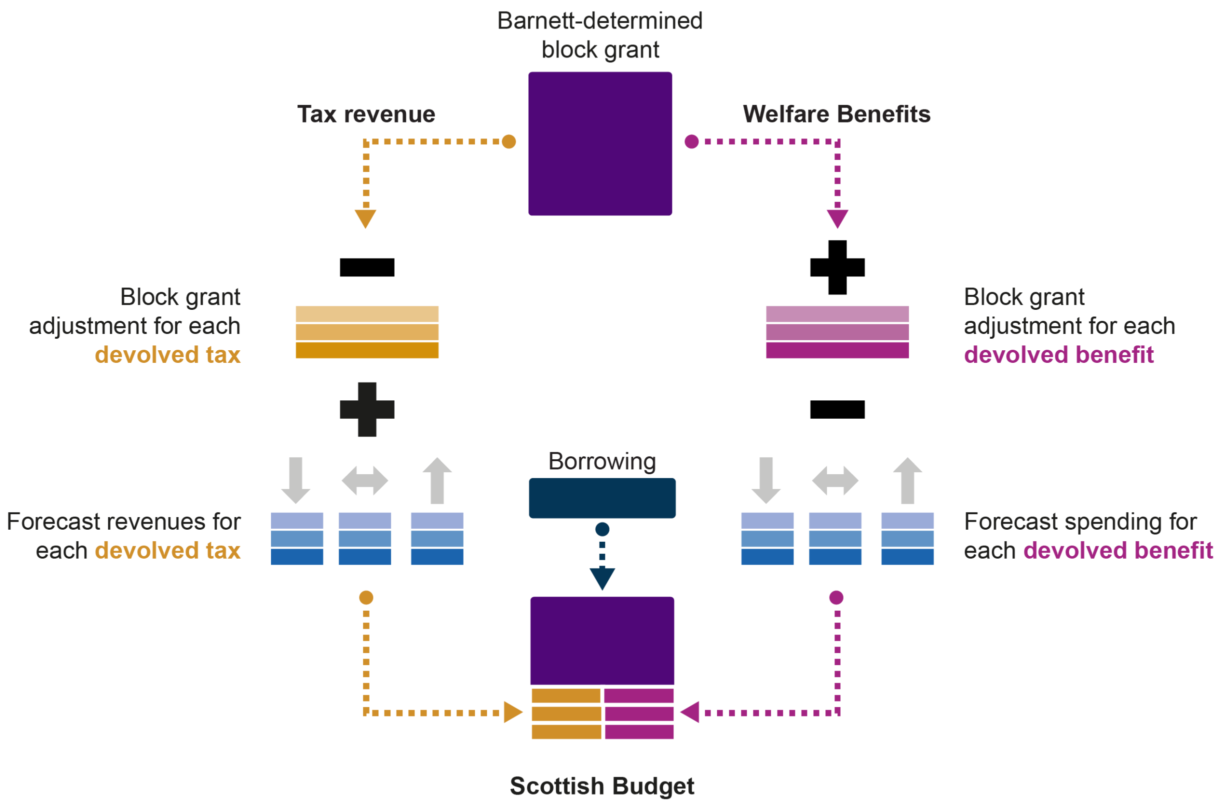
SPICe has published a detailed briefing on the Fiscal Framework [6] .

The Block Grant Adjustment

The Barnett formula will continue to be used to calculate the block grant. The block grant is made up of the previous year's block grant plus/minus "Barnett consequentials". The Barnett formula calculates the consequentials based on Scotland's population share of changes to UK Government spending in areas that are devolved in Scotland.

A Block Grant Adjustment (BGA) will be calculated for each devolved/assigned tax and social security benefit. BGAs linked to the devolved/assigned taxes will be deducted from the block grant to reflect the fact that revenue from these taxes will flow to the Scottish Budget. BGAs linked to the devolved social security benefits will be added to the block grant to reflect additional social security spending by the Scottish Government (Figure 3).

Figure 3: How is the Scottish Budget determined?



There are two elements to the BGA in relation to taxes:

- An initial reduction which is equal to the tax revenues collected in Scotland in the year immediately prior to the devolution of the tax power. This figure is initially based on a forecast and will be recalculated once outturn data is available.
- An indexation mechanism which provides a measure of the rate at which 'comparable' revenues have grown in the rest of the UK. This means the size of the BGA for each tax is dependent on the level of annual growth in the equivalent taxes in the rest of the UK.

There are also two elements to the BGA for social security payments:

- An initial addition to the block grant equal to the UK Government's spending on these areas in Scotland in the year immediately prior to devolution (except for Cold Weather payments which will be based on a multi-year average prior to devolution). This figure will also initially be based on a forecast. Once outturn data is available, the baseline figure will be recalculated
- An indexation mechanism which provides a measure of the rate at which 'comparable' spending has grown in the rest of the UK. This means the size of the BGA for each devolved area of social security is dependent on the level of annual growth in the equivalent area of spend in the rest of the UK.

The Fiscal Framework states that the BGA calculation for each tax and social security benefit will be carried out by HM Treasury at the time of the Autumn Statement (now

Autumn Budget) "provided this occurs at least three months in advance of the start of the financial year." [7]

The tax revenues and devolved benefit calculations will initially be based on forecasts:

- of the revenues likely to be raised from the taxes in Scotland and of the comparable tax revenues in rUK
- of the likely spending on devolved social security benefits in Scotland and of the UK Government's equivalent spending.

The forecasts for Scottish taxes and social security benefits will be prepared by the Scottish Fiscal Commission (SFC). The forecasts of comparable tax revenues and social security spending in the rest of the UK (rUK) which inform the adjustments to the block grant will be carried out by the Office for Budget Responsibility (OBR).

The Scottish budget, although more directly linked to the performance of the economy than was the case in the past, is still inextricably tied to the UK Budget. The BPRG report points out that this link to the UK Budget

> " is not just in terms of the overall impact on Scottish Government finances, but also with regard to the timing of fiscal events at a UK level and the importance of both UK policy in tax and welfare as well as OBR forecasts to the Scottish budget. [8] "

Subsequently, there will be a series of reconciliations between the forecasts and the outturn. The Fiscal Framework Outturn report, which will be published by the Scottish Government each September (see section on "New Documentation and reporting"), will provide details of the reconciliation between the forecasts for the adjustments to the block grant and the revenues from the devolved taxes. This report will inform Parliament of the implications of any reconciliation for the subsequent financial year - for example, whether there is a surplus or a deficit of receipts relative to forecasts.

Borrowing powers

The Fiscal Framework sets out the scope of Scottish Government borrowing powers. For resource borrowing, there is a ceiling of £600m per annum, within a statutory overall limit of £1.75bn. The Fiscal Framework sets out certain rules for how these resource borrowing powers can be used. There is:

- An annual limit of £500m on borrowing for in-year cash management (for example, dealing with any differences in the timing of the collection of devolved revenues and spending commitments within a year).
- An annual limit of £300m on borrowing to account for errors in forecasts of taxes or welfare spending, and error in the forecasting of the BGAs.
- An annual limit of £600m on borrowing to address any observed or forecast shortfall in revenues or welfare spend, where the is, or is forecast to be, a Scotland-specific economic shock. The Fiscal Framework defines a shock as periods when (on a rolling four-quarter basis), Scotland's GDP grows (or is forecast to grow) by less than 1% and is also more than 1 percentage point less than growth in UK GDP growth. This

limit may be temporarily increased if a higher level of borrowing is considered necessary by agreement between the Scottish and UK Governments.

For capital expenditure, there is an annual limit of £450m in borrowing, with an overall statutory cap of £3bn.

The Scottish Government may borrow for capital spending through the UK Government from the National Loans Fund (NLF), by way of a commercial loan, or by issuing bonds. Resource borrowing will continue to be from the NLF.

Scotland Reserve

The Fiscal Framework also allows the Scottish Government to make payments of up to a total of £700m into 'the Scotland Reserve', which is separated between resource and capital.

Payments into the resource reserve may be made from the resource budget including tax receipts. Funds in the resource reserve may be used to fund resource or capital spending.

Payments may be made into the capital reserve from the capital budget and capital reserve funds may only be used to fund capital spending.

Withdrawals from the Reserve can be used for resource spending up to £250m a year and up to £100m a year for capital spending. These limits may be temporarily increased in the event of a Scotland-specific economic shock (as defined in relation to borrowing powers).

The new budget scrutiny process

The BPRG made a number of recommendations for revisions to the Budget process which were subsequently written into a revised Written Agreement between the Scottish Government and the Finance and Constitution Committee [9] .

The Written Agreement is not a statutory document, but it sets out the understanding between the Finance and Constitution Committee and the Scottish Government on the administrative arrangements for the annual budget process and other related budgetary matters. This section sets out the key elements of the new budget process which both the Finance and Constitution Committee and the Scottish Government have agreed to implement.

What has been agreed?

The Written Agreement states that the budget process should have the following four core objectives:

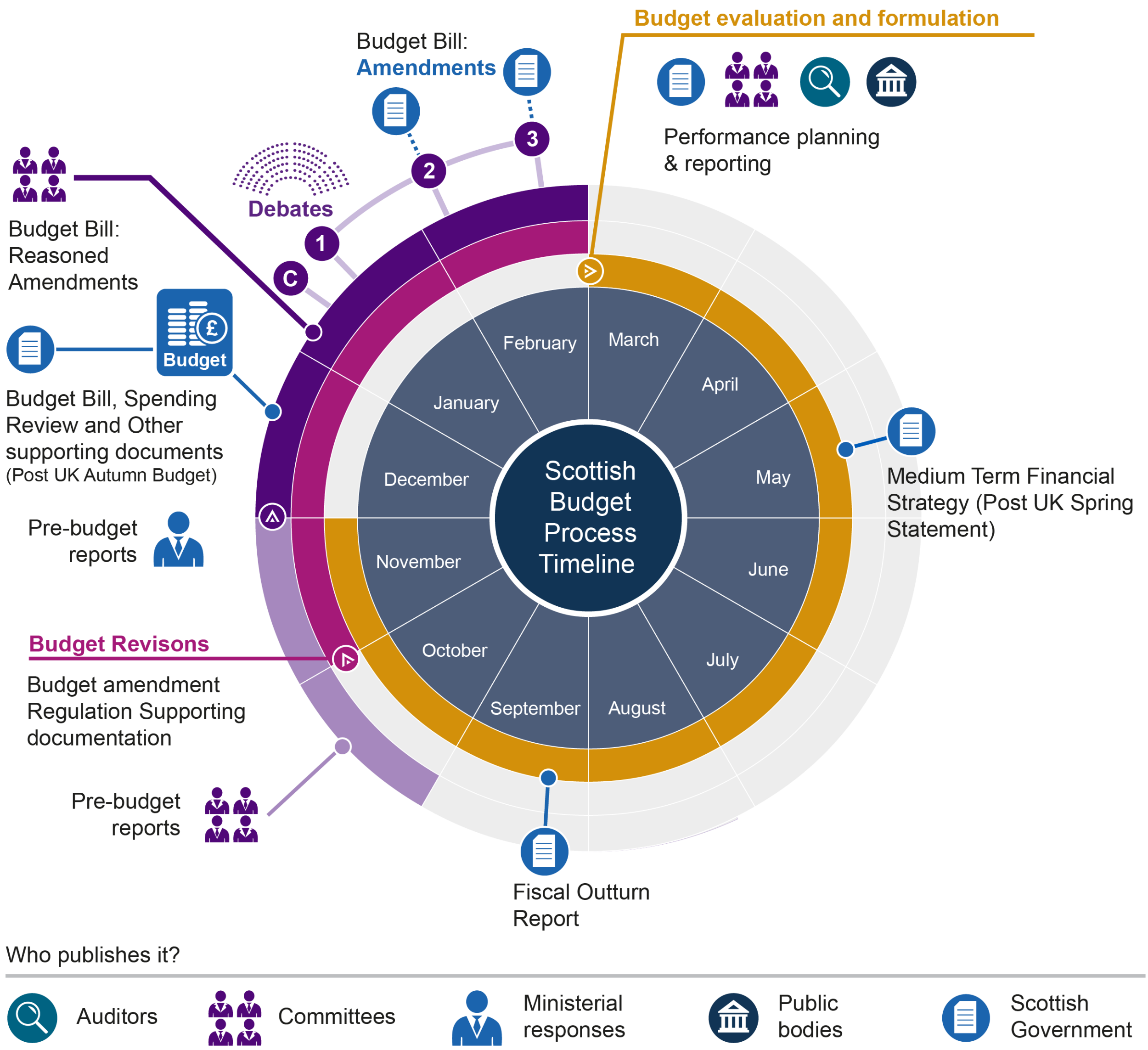
- To have a greater influence on the formulation of the budget.
- To improve transparency and raise public understanding and awareness of the budget.
- To respond effectively to new fiscal and wider policy challenges.
- To lead to better outputs and outcomes as measured against benchmarks and stated objectives.

Budget scrutiny undertaken by the Parliament should have the following focus:

- **Full year approach**: a broader process in which committees have the flexibility to incorporate budget scrutiny including public engagement into their work prior to the publication of firm and detailed spending proposals.
- **Continuous cycle**: scrutiny should be continuous with an emphasis on developing an understanding of the impact of budgetary decisions over a number of years including budgetary trends.
- **Output / outcome focused**: scrutiny should also be evaluative with an emphasis on what budgets have achieved and aim to achieve over the long term, including scrutiny of equalities outcomes.
- **Fiscal responsibility**: scrutiny should have a long term outlook and focus more on prioritisation, addressing fiscal constraints and the impact of increasing demand for public services.
- **Interdependent**: scrutiny should focus more on the interdependent nature of many of the policies which the budget is seeking to deliver.

The BPRG recommended a new Budget process system as illustrated in figure 4 below.

Figure 4: Overview of the revised budget process



New documentation and reporting

As shown in figure 4, there will be a number of new documents published by the Scottish Government to support the new parliamentary scrutiny process, and a number of new mechanisms for parliamentary committees to report their findings.

The BPRG recommended that the optimum time for the Parliament's committees to influence the budget is when budget priorities are being set. As stated in the revised Written Agreement:

> “ Committees should therefore seek to influence the Budget prior to firm spending proposals being published through constructive dialogue with Ministers, public bodies and other stakeholders. This should be based on evidence gathering, review and evaluation of existing policy priorities, how these are being funded and implemented and what is being achieved. Scrutiny should also include consideration of the financial, economic and policy context.”

To support this new approach the Scottish Government has agreed to publish annually a Medium Term Financial Strategy (MTFS) and a Fiscal Framework Outurn Report. As part of a move to outcomes based approach to budget scrutiny, the Scottish Government and public bodies will also strengthen their performance planning and reporting to provide a greater focus on the delivery of outcomes. Table 1 below presents the new documentation and activity that will be undertaken by the Scottish Government to support the new process.

Table 1: New documentation/activity from the Scottish Government

New Document/ activity	What will it report?
Medium Term Financial Strategy	Published annually, will set out expectations and broad financial plans/projections for at least 5 years ahead on a rolling basis. Will follow the UK Spring statement and normally at least four weeks prior to summer recess. SFC forecasts will be incorporated into the report and will be published in full at the same time as the MTFS. The BPRG states that the Scottish Government "should work towards the MTFS consisting of the following four elements": • forecast revenue and demand-led spending estimates from SFC and their effect on Scottish public finances • broad financial plans for next five years • clear policies and principles for using, managing and controlling the new financial powers • scenario plans based on economic forecasts and financial information in order to assess potential impact of various scenarios on the budget.
Fiscal Framework Outturn Report	Published annually in September and based on audited information as far as possible, will cover the following elements of the Fiscal Framework: Reconciliation process: • outturn data for Scottish tax revenues (including comparison against forecast) • calculation of outturn BGAs (and comparison against forecast) • net budgetary position (revenues minus forecast) for each tax relative to forecast • implications of any reconciliation for the subsequent financial year • commentary on latest available interim outturn data on income tax. Scotland Reserve: • payments into the Reserve and withdrawals from the Reserve (with explanations for reasons for withdrawal or source of surplus) • Balance of Scottish Reserve at the start and end of the previous financial year. Borrowing: • borrowing undertaken in past financial year, assessment of how far Government remains below its various borrowing limits • implications of borrowing in terms of estimated profile of future repayments.
Performance Planning and Reporting	The Written Agreement states that the Scottish Government will work with public bodies to strengthen performance planning and reporting to provide a greater focus on the delivery of outcomes. Better information will be provided on • what activity public spending will support • what this aims to achieve • the contribution this is expected to make to outcomes • how plans are being delivered and the impact this is having. Scottish Government guidance will make clear that public bodies should report on their contribution to the National Performance Framework (NPF) in their published corporate and business plans and annual report to best support parliamentary scrutiny of their activities and spending. Parliamentary committees will then be able to consider relevant Scottish Government and public body performance plans and reports, alongside other available evidence on the intended impact of policies and spending and the effect these are having.

In light of the new approach to outcomes-based reporting as identified in table 1, the revised Written Agreement makes recommendations on how the new approach to performance planning and reporting should be scrutinised by the Committees.

The BPRG recommends that Committees should publish pre-budget reports as a way of identifying their budget priorities in advance of the Government bringing forward its budget. The Written Agreement states that each Committee should write to their respective portfolio minister at least 6 weeks prior to the publication of the budget, setting out their views of the delivery, impact and funding of existing policy priorities.

Committees will also be free to make proposals for changes. Any proposals for increased spending also require a proposal or range of options setting out how the additional expenditure will be funded.

Pre-budget reports should include each Committee’s findings on the impact of spending on outcomes and the implications of these findings for future spending plans, including any suggested changes to policy priorities or allocation of resources.

Spending reviews

The Written Agreement states that there is a presumption that the Scottish Government will undertake Spending Reviews linked to the equivalent UK Spending Review (SR). Where the Scottish Government plans to diverge from publishing an SR after a UK SR, it will explain the reasoning in a letter to the Finance and Constitution Committee.

The Scottish Government has agreed that in SR years, it will publish the following prior to summer recess, in order to allow time for parliamentary scrutiny and input:

- a framework document setting out the economic and political context
- the criteria which will govern the assessment of budgets
- the process and timetable for review.

Budget Bill and detailed revenue and spending Proposals

As a consequence of the changes proposed in the BPRG report, there will no longer be a draft budget process as discussed above. Therefore, the Draft Budget document will no longer require to be produced. Instead, the content of the previous Draft Budget document will now be published as the Scottish Budget alongside the Budget Bill. The Written Agreement states that the Scottish Budget will normally be published the week before the introduction of the Budget Bill.

The Scottish Budget document will normally be published no more than three working weeks after the publication of the UK Autumn Budget. While the timing is not fixed (as it depends on the timing of the UK Autumn Budget), it is expected that the Scottish Budget and Budget Bill will "normally be published prior to Christmas recess and this is reflected in the timings for the Budget Bill process in the Standing Orders."

What changes has the Scottish Government agreed to make to the Budget documentation?

The Written Agreement (see the annexe to this briefing) states that the Scottish Government agrees to make the following changes to budget documentation in order to improve the accessibility and transparency of the budget –

- The factual content of budget proposals is separated from any political narrative.
- There should be a consistent approach to the presentation of financial data within the budget document. This financial information should be available to Level 3.
- Budget aggregates should be comparable year on year including reflecting the impact of changes to Ministerial portfolios.
- The budget document should include historical analysis of financial information by portfolio as well as against key budget aggregates (including capital and revenue allocations).
- In addition, there needs to be clarity regarding the relationship between budget allocations and available funding in different parts of the budget document. Spending allocations across all portfolios within the budget document must be reconciled with available funding.
- All aspects of Scottish Government expenditure should be separately identified within the document on a consistent basis. Where allocations to individual organisations are derived from different budget portfolios this needs to be set out consistently and transparently.
- There should be consistency in the period covered by the Budget which should also be retrospective covering at least two prior years as well as forward looking.
- Clear financial information on the operation of Scotland Act 2012 and 2016 powers.
- The provision of Level 4 financial information to be published alongside the publication of formal budgetary information in the same manner as is currently the case.

Stage 1

So what will Stage 1 scrutiny of the budget documentation now look like?

The Written Agreement between the Finance and Constitution Committee and the Scottish Government states that Stage 1 should contain the following elements:

- The Budget document should include a summary of how submissions from Parliamentary committees have influenced the formulation of the Budget.
- Ministers will provide more detailed responses to the relevant Committees within five days of the Budget's publication.
- Each Committee will then have the opportunity to receive oral evidence from their respective Ministers.
- Committees can then consider whether they are content with the Scottish Government response, and consider whether they wish to make any alternative revenue and spending proposals. As now, Committees and individuals will be able to make alternative revenue and spending proposals through reasoned amendments to the motion on the general principles of the Budget Bill at Stage 1.
- Standing Orders now require the Bureau to provide time for a committee debate, led by the Finance and Constitution Committee, in the Chamber prior to the Stage 1 debate on the general principles of the Budget Bill.
- During this debate, a relevant convener, or representative of the various committees will have time to set out how their committee has sought to influence the budget. The Government will have the opportunity to respond.

- The Finance and Constitution Committee will also produce a report at Stage 1, which will focus on the wider picture of revenue and expenditure and whether they are appropriately balanced.

Stage 2 and 3

As before, only Ministers will be able to lodge amendments to the Budget Bill at Stages 2 and 3. If Ministers decide to not lodge formal amendments to reflect any reasoned amendments agreed by Parliament at Stage 1, a written explanation will be provided to the Finance and Constitution Committee in advance of Stage 2.

Budget revisions

Budget revisions allow the Scottish Government to make in-year changes to the Budget Act for that financial year through subordinate legislation. Revisions are normally produced twice per annum in 'autumn' (usually September/October) and 'spring' (usually January/ February). They are considered by the Finance and Constitution Committee which is then invited to recommend to the Parliament that the Budget (Scotland) Act Amendment Regulations be approved.

The BPRG noted that the process for Budget Revisions will need to change to reflect the increasing impact of further devolution and the changes to the funding arrangements for the Scottish Government.

Given the increased complexity and potential volatility of the Scottish budget, the BPRG recommended that the Spring Budget Revision is "accompanied by a mid-year report on revenue and spending up to the end of December of the current financial year." These mid-year reports will then be scrutinised by the Finance and Constitution Committee alongside the Amendment Regulations.

Implementation timetable

The following table from Annex B of the BPRG report, outlines the key events in the proposed new budget process, and the implementation date.

Timing of key budget documentation

Document	Timing in Budget Scrutiny Cycle	Date of Implementation
Framework Document for a Scottish Spending Review	Prior to summer recess in a Spending Review year	(Prior to summer recess) – Next Spending Review year
Medium Term Financial Strategy	Following the UK Spring Statement and at least four weeks prior to the summer recess	At least four weeks prior to summer recess 2018
Additional Equalities Information	Prior to the summer recess	Spring 2018
Fiscal Framework Outturn Report	September	September 2018
Budget Document, Budget Bill and Equality Budget Statement	No more than three working weeks after the UK Budget	Autumn 2018
SFC Forecasts post Spring Statement	At the same time as the Medium Term Financial Strategy	At least four weeks prior to summer recess 2018
SFC Forecasts post UK Autumn Budget	At the same time as the Scottish budget	Autumn 2017
Parliamentary Committees Pre Budget Reports	At least six weeks prior to publication of the Scottish Budget	Autumn 2018
	Budget Bill Process	
Committees' Debate	Following publication of the Budget Bill and before Stage One debate	January / February 2019
Stage One		January / February 2019
Stage Two		January / February 2019
Scottish Rate Resolution		January / February 2019
Stage Three		January / February 2019

The BPRG recommended that the Scottish Parliament and Scottish Government review the revised budget process following the outcome of the review of the Fiscal Framework (planned for 2021).

Annexe

The BPRG report presents the key components of the revised budget process and these are reproduced in the following table.

Components of the Revised Budget Process

Activity	Purpose	Key documentation
Budget evaluation and formulation	Committees seek to influence the budget prior to firm proposals being published through constructive dialogue with ministers, public bodies and other stakeholders. This is based on evidence gathering, review and evaluation of existing policy priorities, how these are being funded and implemented and what is being achieved. This includes consideration of the financial, economic and policy context and should be a cumulative process throughout each session of the Parliament.	Medium Term Financial Strategy (Post UK Spring Statement) – SG. Fiscal Framework Outturn Report (September) – SG. Performance planning & reporting – SG, public bodies, auditors & Public Audit committee.
Pre-budget reports	Each committee writes to ministers at least 6 weeks prior to the publication of the budget setting out their views on the delivery and funding of existing policy priorities, any proposed changes and how these should be funded.	Pre-budget reports – committees
Budget Bill & Budget Document	Ministers publish Budget Bill and Budget Document no more than three working weeks after the UK budget. The Budget Document should include a summary of how the submissions from committees have influenced the formulation of the proposals alongside a Budget Bill. Within five sitting days of the budget being published ministers will provide a more detailed written response to individual committees. Ministers then provide oral evidence to committees. Committees consider whether they are content with the Government response and may suggest alternative proposals through reasoned amendments to the Government's motion on the general principles. Each committee convener is allocated time in a chamber debate on pre-budget reports.	Budget Bill – SG Budget document incorporating Spending Review when undertaken – SG Ministerial responses to pre-budget reports – SG Other supporting documentation – SG Equality Budget Statement – SG Committee Pre-Budget reports
Budget Bill: Stage 1 debate	Committee conveners move any reasoned amendments if selected by the Presiding Officer.	Budget Bill reasoned amendments (January) – Committees
Budget Bill: Stages 2 & 3	Scottish Government may lodge amendments at Stage 2 and Stage 3. This may include in response to reasoned amendments agreed by the Parliament at Stage 1. If the Government does not intend to lodge amendments to reflect reasoned amendments agreed at Stage 1 then ministers must provide a written response in advance of stage 2 for consideration by the Finance and Constitution Committee.	Ministerial response to reasoned amendments (February) – SG Budget Bill amendments (February) – SG
Budget Revisions	Scottish Government may make Regulations to amend budget totals in accordance with any provisions in the Budget Bill. The Finance and Constitution Committee will consider whether it is content with these, making reference to a report on annual revenues & spending to date.	Budget amendment Regulation (November / February) – SG Supporting documentation (November/ February)– SG Mid-year report on revenue & spending (February) - SG

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Renfrewshire Council

To: **Council**

On: **28 June 2018**

Report by: **Director of Finance and Resources**

Heading: **Treasury Management Annual Report for 2017-18**

1. Summary

1.1 An annual report to Council outlining the treasury management activity undertaken during the year is a requirement of the Local Government Investments (Scotland) Regulations 2010.

1.2 This report meets the requirements of these regulations, and both the CIPFA Code of Practice on Treasury Management 2009 (as amended 2017) (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.3 All aspects of the Treasury Policy Statement were complied with in 2017-18.

2. Recommendations

2.1 It is recommended Council approves the Treasury Management Annual Report for 2017-18.

3. Review of 2017-18 Treasury Activities

3.1 Treasury Portfolio Position at 31.03.18

The Council's external borrowing position at the beginning and end of the last financial year was as follows:-

	Borrowing Position as at 31 March 17		Borrowing Position as at 31 March 18		Change
	£ m (a)	Average Interest Rate	£ m (b)	Average Interest Rate	(b) - (a)
Long Term Borrowings					
Public Work Loans Board - (PWLB) Fixed Interest	186.41	4.80%	175.20	4.79%	(11.21)
Market Loans	52.91	4.69%	52.91	4.69%	-
Total Long Term	**239.32**	**4.78%**	**228.11**	**4.78%**	**(11.21)**
Short Term Borrowings					
Common Good Funds	4.23	0.54%	3.44	0.46%	(0.79)
Agencies, Joint Boards	2.90	0.54%	1.91	0.46%	(0.99)
Renfrewshire Leisure Ltd	0.18	0.54%	-	0.46%	(0.18)
Total Short Term	**7.31**	**5.40%**	**5.35**	**0.46%**	**(1.96)**
Total Borrowings	**246.63**	**4.78%**	**233.46**	**4.78%**	**(13.17)**
Temporary Investments	**133.45**	**0.49%**	**112.01**	**0.54%**	**(21.44)**

4. Review of Borrowing and Investment Outturn for 2017-18

4.1 Overall, the Council's total external borrowings decreased by £13.17 million. This was mainly due to the scheduled repayment of £11.21m of maturing loans to Public Works Loan Board (PWLB).

4.2 Temporary investments held by the Council decreased by £21.44 million. The main reason for this was due to the repayment of the £11.21m of maturing loans to the PWLB. In line with the Council's Treasury Management Strategy no new borrowing was undertaken and investment balances were also used to fund capital investment requirements for the year. The level of cash balances held are required to fund the agreed capital programme, scheduled PWLB repayments and a number of cash-backed provisions and reserves that the Council has made for specific purposes in closing the 2017-18 accounts.

5. Review of Borrowing Strategy and New Borrowing during 2017-18

5.1 The agreed strategy for 2017-18 was approved by Council on 16 February 2017. Based on the Council's planned programme of investments and interest rate forecasts for the year, the Council's borrowing strategy was to use internal cash balances to finance the Capital Investment Programme, acknowledging that this principle did not include the short and longer term financing impact of City Deal projects. As outlined above and in line with this strategy, no new borrowing was undertaken in 2017-18.

6. Review of Investment Strategy and Investment Outturn for 2017-18

6.1 In carrying out investment activities, the Council will have regard to The Local Government Investment (Scotland) Regulations 2010, the accompanying Scottish Government Finance Circular 5/2010 and the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the Treasury Management Code").

The Council's investment priorities are the :

- security of capital and
- liquidity of its investments

The Council's investment policy was outlined in the Council's Annual Investment Strategy Report 2017-18 which was approved by Council on 16 February 2017. This policy set out the Council's approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.2 The Investment Strategy for 2017-18 anticipated the Bank Rate staying low for throughout the year, with marginal increases commencing over the medium term. The strategy agreed was therefore to continue to avoid locking into longer term deals while investment rates remained at historically low levels. However, if attractive rates became available with counterparties of particularly high creditworthiness making longer-term deals worthwhile then these investments would be considered.

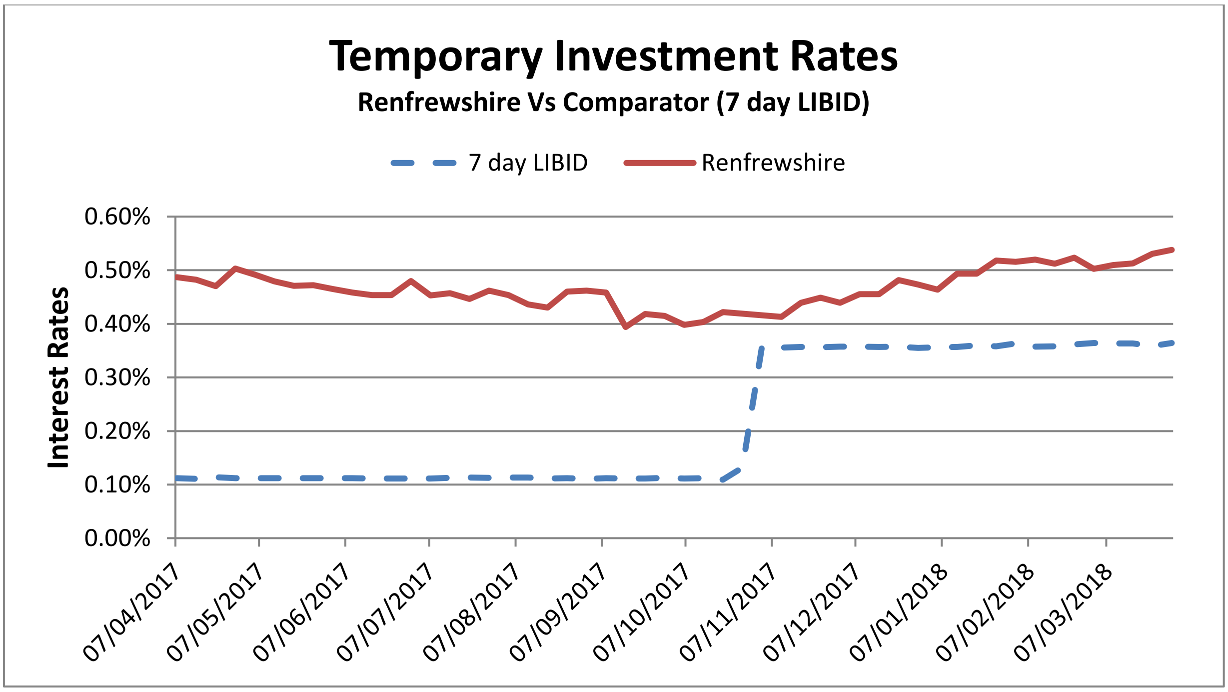
6.3 Deposit rates remained low at the start of 2017/18 and continued to fall in the first two quarters. However, the Bank of England Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% in November 2017. This was the first rate rise in ten years and rates increased gradually from then until the year end on the expectation of a further increase in Bank Rate. Rates have since fallen away again in the new financial year as the prospect of further significant rate rises diminishes. The low rates and ongoing uncertainty has highlighted the need for caution to be maintained in the Council's treasury investment activity.

6.4 During 2017-18, the Council only invested with institutions listed in the Council's approved Counterparty list and in the permitted investment categories. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

6.5 The table below shows interest rates achieved by the Council on its temporary investments during the year and for comparison the benchmark comparator, the average 7 day LIBID rate (uncompounded).

Temporary investments - internally managed	**2016/17**	**2017/18**
Average Investment	£142.36m	£145.53m
Actual rate of return	0.54%	0.46%
Benchmark return	0.20%	0.21%

6.6 The graph below shows the trend of interest rates on our investments over the course of the year. The Council out-performed the average benchmark for the year. Throughout the year the Council made use of opportunities where appropriate to invest for longer periods with high quality counterparties up to one year when better rates were available. These special tranche rates offered some value over the year however, deposit rates remained depressed during the whole year, primarily due to the increased availability of cheap funding from alternative sources, such as the Bank of England's Funding for Lending Scheme and due to continuing weak expectations as to when the Bank Rate would start rising.



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7. Debt Rescheduling

7.1 No rescheduling was undertaken during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling uneconomic and the Council continued to use internal cash balances to finance ongoing capital investment in the short term.

8. Compliance with Treasury Limits

8.1 The Prudential Code for Capital Finance in Local Authorities came into force on 1 April 2004 and replaced the previous system of “Section 94” Government controls over capital investment and borrowing. The Prudential Code allows greater local flexibility for investment decisions that are informed and supported by a “basket” of performance indicators. The 2017/18 indicators were approved by Council on 16 February 2017, and subsequently revised on 21 December 2017.

8.2 The Council’s overall performance against the basket of these indicators provides a firm basis for the monitoring and control of capital investment and borrowing and for determining that it is affordable. Certain headline indicators are sub-divided per recommended best practice into two programmes – housing and non-housing.

8.3 The key performance indicators for Treasury are:

1. An “operational boundary” for the Council’s external borrowing (the upper limit for the aggregate external borrowing needed) plus an “authorised limit” for the Council’s external borrowing (the upper limit of aggregate external borrowing that is affordable and prudent).

2. An upper limit for “exposure to fixed interest and variable rate debt” (to manage the risk of over-exposure to fluctuations in interest rates over time)

3. A ratio of financing costs to net revenue stream (an affordability measure for debt repayments).

4. An upper limit for fixed rate borrowing maturing within the short, medium and long term (to ensure that the Council is not exposed to a significant re-financing requirement in the short to medium term).

In addition, it is a requirement of the Council's Treasury Policy Statement that the maximum amount of long term borrowings maturing in any one year will be no more than 15% and the maximum amount of long term borrowings maturing in any five year period will be no more than 50%. The objective of these limits is to ensure that the Council is not exposed to a significant re-financing requirement over a short period when interest rates could be relatively high.

8.4 External Borrowing at the Year-end

The Council's aggregate external debt was contained within both the operational boundary and the authorised limit. The outturn compared to the prudential limits is as follows:

2016/17 Outturn £m		2017/18 Borrowing Limits £m	2017/18 Outturn £m
319.38	Aggregate external debt of the Council at 31 March		305.29
382	Operational Boundary	413	
397	Authorised Limit	430	

8.5 Exposure to Fixed Interest and Variable Rate Debt

This indicator is expressed as a proportion of the total external debt of the Council. The Council's exposure was within the limits set for both fixed and variable debt. The outturn compared to the prudential limits is as follows:

2016/17 Outturn %		2017/18 Approved Upper Limits %	2017/18 Outturn %
77.89	Fixed interest rate exposure	100.00	76.80
22.11	Variable interest rate exposure	25.00	23.20

8.6 Ratio of Financing Costs to Net Revenue Stream

This indicator is expressed as a proportion. Both the Housing and Non-housing programme were within estimate.

2016/17 Outturn %		2017/18 Estimated Ratio %	2017/18 Outturn %
53.4	Housing	43.84	59.94
4.5	Non-Housing	4.79	5.72

The higher than forecast outturn position reflects adjustments made to planned debt repayments linked to the Council's ongoing medium term debt smoothing strategy.

8.7 Fixed Rate Borrowing Maturing within the Short, Medium and Long Term

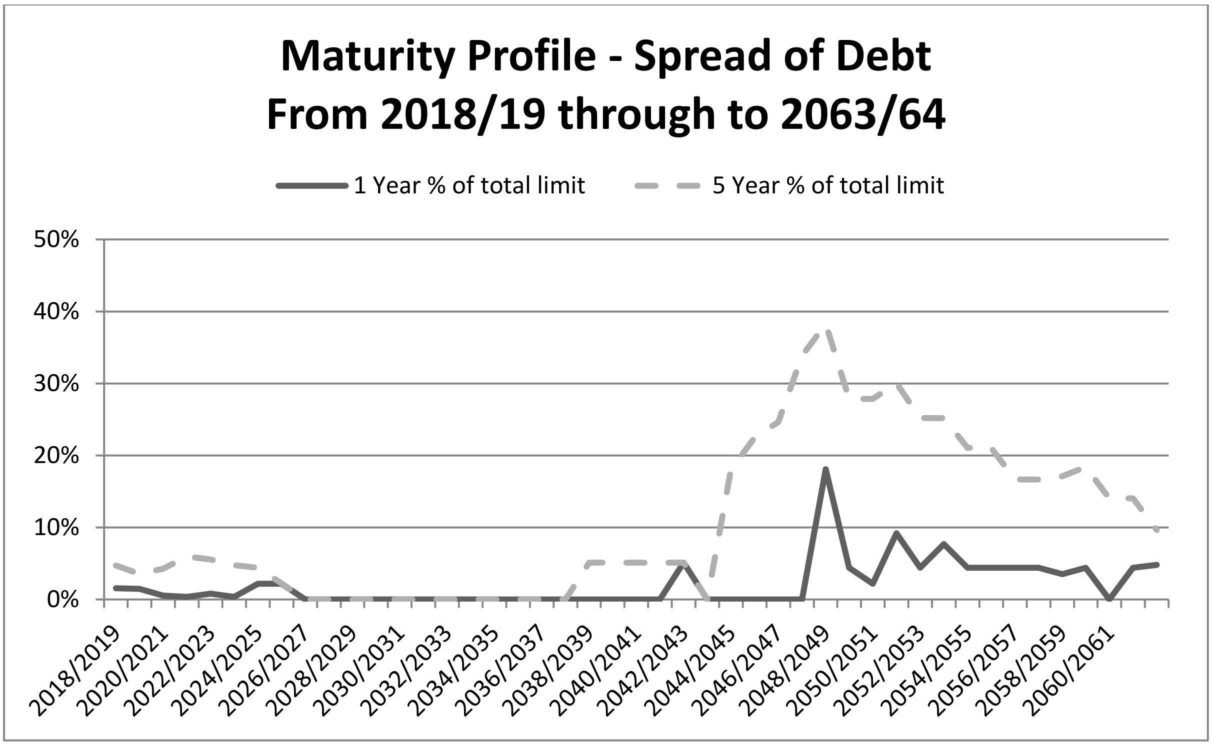
This indicator is expressed as a proportion of the total debt of the Council. The maturity profile of the Council's external debt is well within the approved limits. The outturn compared to the estimate is as follows:

2016/17 Outturn		**2017/18 Approved Upper Limits**	**2017/18 Outturn**
%		**%**	**%**
	Short term		
4.69	Under 12 months	15	1.55
	Medium term		
1.47	12 months and within 24 months	15	1.46
2.25	24 months and within 5 years	15	1.72
5.32	5 years and within 10 years	50	4.76
	Long term		
86.28	10 years and above	100	90.51

8.8 Long Term Borrowing Maturity Profile

During the financial year, the Council operated within the treasury limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement. The Council's debt maturity profile at 31 March 2018 was within these limits with the exception of the debt maturing in the year 2048/49. The debt maturing in the year 2048/49 is 18.12% of the portfolio as compared to a target of 15%. This marginal breach on the 15% target emerged as a consequence of a change implemented in 2007/08, in the way Lender Option/Borrower Option (LOBO) loans are treated in calculating the Council's maturity profile. Previously the next option date was used as a "potential" maturity date for each loan and this has been changed to the actual maturity end date for each loan. This better reflects the maturity risk in relation to these loans and although it does marginally breach our 15% target in 2048/49, it is expected that the debt will be subject to re-profiling well in advance of the 2048/49 maturity date.

The table below shows the "maturity profile" of the Council's long term borrowing. The heavy black line shows the debt maturing - and therefore requiring to be replaced - during each year up to 2064. The lighter broken line shows the debt maturing in the five year period for each year up to 2064. All years are below 40% and well within our policy limit of 50%.



Implications of the Report

1. **Financial** - As described in this report
2. **HR & Organisational Development** - None
3. **Community Planning** – None
4. **Legal** - None
5. **Property/Assets** None
6. **Information Technology** – None
7. **Equality & Human Rights** – The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report because it is for noting only. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** None
9. **Procurement** – None

10. **Risk** – the report outlines a range of measures taken during the course of 2017/18 to manage treasury risks and the risk issues associated with the investment regulations in respect to borrowing and investment activity of the Council and the proposals for managing these risks.

11. **Privacy Impact** – None

12. **COSLA implications -** None

List of Background Papers

Author: Alastair MacArthur, Head of Finance, Ext 7363

Item 5

Renfrewshire Council

To: **Council**

On: **28 June 2018**

Report by: **Director of Finance & Resources**

Heading: **Governance Arrangements**

1. Summary

1.1 The purpose of this report is principally to seek approval for a number of changes to the Council's Scheme of Delegated Functions ("the Scheme”). The report also asks the Council to consider a request for the appointment of an elected member to the Board of PACE Theatre Company and provides an update on the review of the Council's community level governance arrangements.

2. Recommendations

2.1 That the Council considers the appointment of an elected member to the Board of PACE Theatre Company and agrees that the appointment is taken up once the Director of Finance and Resources has confirmed that an appropriate insurance policy is in place as explained in paragraph 3.1 below;

2.2 That the Council agrees that Section 4 (Statutory appointments of officers) of the Council's Scheme of Delegated Functions be amended to include the statutory appointments of officers as Civic Licensing Standards Officers in terms of Section 45 (G) of the Civic Government (Scotland) Act 1982 and the Head of Corporate Governance as Responsible Officer in terms of Section 7 of the Regulation of Investigatory Powers (Scotland) Act 2000.

2.3 That Section 5 (Powers Delegated to Officers) of the Council's Scheme of Delegated Functions be amended as follows:

a) To add a new paragraph 16 to the delegations to the Director of Finance and Resources to read: 'To have overall responsibility for information risk as Senior Information Risk Owner' and to renumber the subsequent paragraphs accordingly.

b) To include new delegations to the Head of Marketing and Communications as detailed in paragraph 3.4 of this report and to make the consequent change to the delegations to the Head of Policy and Commissioning referred to in that paragraph.

2.4 That the Terms of Reference of the Communities, Housing and Planning Policy Board be amended to include the following:

a) Add a new paragraph 52 to the Term of Reference to read: "To consider and where appropriate approve applications for funding from the Community Empowerment Fund."

2.5 That the position with regard to the review of community level governance with a report being brought to Council on 27 September 2018 be noted

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3. Background

3.1 PACE is a well-known youth theatre company which has been based in Paisley since its establishment in 1988. It is managed by company limited by guarantee and is a registered charity. PACE has contacted the Council and has invited the council to nominate an elected member to be a director on the Board of the Company. The Council has formerly appointed an elected member to the Board of PACE but no request for an appointment was made prior to the statutory meeting in May 2017.

The Council's existing third party/public liability insurance indemnifies elected members against any legal liability to third parties whilst they are undertaking the statutory functions of the Council as members of such organisations. However, generally, as an elected member's primary duty when acting for an outside body (albeit that he/she was nominated or appointed to that body by the Council) is to act in the best interests of that body, the responsibility for ensuring that appropriate insurances are in place lies with the outside body. The Council's insurance policy does not cover the actions of elected members in such circumstances and it is therefore essential that the organisation has appropriate insurance in place to indemnify members against any legal liability. It is suggested therefore that the appointment is not taken up until the Director of Finance & Resources has confirmed that an appropriate insurance policy is in place.

3.2 Statutory Appointments of Officers

In terms of various statutes, the Council is required to appoint officers for certain purposes defined in the legislation. Officers so appointed are empowered to take such action as is implicit in their role. Section 4 of the Scheme lists the statutory appointments of officers and it is proposed to make the following additions to Section 4:

(a) Licensing Standards Officers/Civic Government Enforcement Officer

In terms of Section 45(G) of the Civic Government (Scotland) Act 1982 each local authority must appoint a civic licensing standards officer to exercise, in relation to the authority's area, the general functions conferred on civic licensing standards officers as detailed in the Act. It is proposed that the officers to be appointed to this statutory role are the Civic Government Enforcement Officer and Licensing Standards Officers.

(b) Head of Corporate Governance

In terms of Section 7 of the Regulation of Investigatory Powers (Scotland) Act 2000 the Council is required to maintain a register for inspection by the Surveillance Commissioner of authorisations for covert surveillance. The Head of Corporate Governance currently undertakes that role but this arrangement should be reflected in Section 4 of the Scheme.

3.3 Senior Information Risk Owner

In terms of the Council's Data Protection Policy, the Head of Finance & Resources is the Senior Information Risk Owner with overall responsibility for information risk. This requires to be reflected in the scheme. It is proposed that Section 5 of the Scheme be amended to add a new delegation to the Director of Finance and Resources to reflect this role.

3.4 Head of Marketing and Communications

The new post of Head of Marketing and Communications was approved at Leadership Board in September 2017. The Scheme does not currently reflect the duties of the post and it is proposed that the following delegations are now added to the section of the Scheme dealing with delegations to the Chief Executive and other chief officers in her service.

"The Head of Marketing and Communications is authorised:

- To implement the Council’s policies and strategies relating to communications, marketing, media relations, event management, tourism, stakeholder relations and internal (employee) communication.

- To deliver the Council's visitor strategy in line with the aims and objectives of the Council’s corporate plan and policy priorities.

- To develop bids to bring new events for Renfrewshire and secure sponsorship and external funding as appropriate to support development of the events programme.

- To set the charges for events and to review the events programme annually, in consultation with the Leader of the Council and the Provost.

- To grant third party access agreements to the Paisley Pattern archive held in the Paisley Museum and, where these arrangements have an element of commercial exploitation, to agree the terms and conditions of these in consultation with the Director of Finance and Resources and the Head of Corporate Governance seeking specialist advice where necessary.”

As a consequence of the above delegations to the Head of Marketing and Communications, paragraph 26 (Paisley Pattern Commercial Agreements) of the current delegations to the Head of Policy and Commissioning requires to be deleted and the remaining paragraphs renumbered accordingly.

3.5 Communities, Housing and Planning Policy Board Terms of Reference

At its meeting on 20 June 2018, the Leadership Board agreed procedures for the award of funding from the Community Empowerment Fund. It was also agreed that as part of those procedures decisions on the allocation of money from the fund would be made by the Communities, Housing and Planning Policy Board. The remit of that Board requires to be amended to reflect that new delegation.

3.6 Review of Community Level Governance Arrangements

On 3 May 2018, Council considered a report summarising the findings of the recent review of community level governance arrangements which was led by the Chief Executive's Service. It was subsequently agreed that officers would undertake further work to develop the proposals outlined in this report, with a view to a full set of finalised proposals and supporting processes including aims, membership, boundaries and meetings to be submitted to the meeting of the Council on 28 June 2018. Officers have worked at pace to develop final proposals and associated arrangements, which would see the local area committees move from formal Council committees to more community-led arrangements as was proposed through the consultation exercise. However, further work is required to determine governance arrangements in order to ensure a smooth transition to new arrangements should they be approved.

In these circumstances, it is proposed that further work is undertaken to finalise the proposed governance arrangements, and that a full report is brought back to Council in September 2018 setting out the new governance arrangements for formal approval. Subject to this approval, officers will work to ensure that the new arrangements are put into place from October 2018.

Implications of the Report

1. **Financial –** none

2. **HR & Organisational Development** - none

3. **Community/Council Planning** – none

4. **Legal** – the proposals in the report involve changes to the Council's Scheme of Delegated Functions.

5. **Property/Assets -** none.

6. **Information Technology –** none

7. **Equality & Human Rights**

   The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety –** none

9. **Procurement –** none

10. **Risk** –none.

11. **Privacy Impact –** none

12. **CoSLA Policy Position** – not applicable

List of Background Papers – e-mail from PACE Theatre Company

Author: Ken Graham, Head of Corporate Governance
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Renfrewshire Council

To: **Council**

On: **28 June 2018**

Report by: **Chief Executive**

Heading: **Renfrewshire Community Protection Chief Officers Group – Annual Report 2017/18**

1. Summary

1.1 This is the third annual report of the Community Protection Chief Officers Group. It provides an overview of the main elements of work of those involved in public protection over the course of 2017/18, and in doing so highlights the key benefits of excellent partnership working.

1.2 As elsewhere in the country, Renfrewshire continues to face challenges in addressing a range of local protection issues, but the Community Protection Chief Officers Group and the local multi-agency partnerships, continue to recognise, alongside scrutiny and reflection, the value of a proactive focus on awareness raising and preventative approaches to protect people in the community. This has been evident in the work of those groups, agencies and partnerships involved in public protection.

1.3 A significant range of activities have been progressed by partners during 2017/18, which are detailed within Appendix 1 and includes:

- The Joint Inspection of Adult Health and Social Care took place between October and December 2017 with the report released by the Care Inspectorate/Healthcare Improvement Scotland on 18 April 2018. The report highlights that Renfrewshire Health and Social Partnership are making significant progress on improving residents' health and social services;
- On 22 June 2017 exercise Agora Archway took place in Renfrewshire, the aim of the exercise was to examine the role and responsibilities of

both public organisations and the community in response to an immediate threat of a terrorist incident. This exercise was the first of its kind nationally and brought together the Council's Corporate Management Team (CMT) and Council Resilience Management Team (CRMT), as well as key blue light partners and the Grey Space Group; and

- On 14 March 2018, over 200 delegates attended the Renfrewshire Child Protection Committee Conference "Children's Emotional Health and Wellbeing".
- Following the tragic fire incident on 13 June 2017 within Grenfell Tower, London, Development and Housing Services together with other key partners have supported Scottish Fire & Rescue Service in their response and reassurance to communities regarding prevention of fire and protection for Renfrewshire communities. As a result, a multi-agency group was established to:
  - review the measures that are in place to ensure fire safety at our high rise blocks;
  - agree any actions that may enhance these fire safety arrangements; and
  - ensure tenants and residents are kept up to date and re-assured of our ongoing commitment to fire safety.
- We have now resettled 120 Syrians and will continue to work to promote the integration or refugees in Renfrewshire;
- The ADP continues to implement the National Naloxone Programme which aims to prevent drug related deaths. Naloxone is a potentially lifesaving drug which can temporarily reverse the symptoms of overdose. Most recent performance shows that 32% of problem drug users have been trained and received a supply of Naloxone;
- 100 cases were referred to Multi Agency Risk Assessment Conference (MARAC) where the victims had been identified as being at risk of serious harm or homicide, as a result 145 children were also discussed.
- Renfrewshire Council and Police Scotland continued to work with the ongoing Scottish Child Abuse Inquiry;
- The Chief Social Work Officer (CSWO) was appointed the Welfare Guardian for 117 adults with incapacity, in addition Renfrewshire has approximately 400 private guardianship orders;

2. Strategic Focus 2018/19

2.1 In early 2018, the Chief Officers Group identified a range of key priorities which partners would seek to progress during 2018/19. It should be noted that these priorities are high level and there is significant partnership work to improve and develop service over and above those mentioned:

- Have a targeted focus on alcohol and drugs misuse across Renfrewshire and drive forward local actions to reduce the impact on individuals, families and communities;

- Ensure that the findings from the Joint Inspection of Adult Health and Social Care are embedded in the Strategic Planning arrangements of the Health and Social Care Partnership;
- Give consideration to the findings and recommendations of the recent national Thematic Inspection of Adult Support and Protection to ensure that all appropriate actions are taken in a Renfrewshire context;
- Continue to work closely with our colleagues in the Adult Protection Committee and raise awareness of adult support and protection services;
- Consider the multi-agency response to supporting people in distress;
- Maintain multi agency audit and review activity;
- Support the implementation of Renfrewshire's Community Justice Outcomes Improvement Plan 2018-2021 and respond to the planned presumption against short sentences;
- Finalise our Gender Based Violence Strategy 2018-2021, develop our performance framework and implement the national quality standards as available;
- Address the impact of adverse childhood experiences through early and preventative intervention's, working closely with partners using the Getting it Right for Every Child (GIRFEC) approach;
- Consider the findings of the National Child Protection Improvement Programme as these are developed and implement as appropriate;
- Consider the new inspection framework for children's services;
- Continue to keep an overview of the work of the Scottish Child Abuse Inquiry;
- Ensure safety, protection and positive outcomes for unaccompanied asylum seeking children and Syrian families, with a particular focus on support and integration;
- Have oversight of and support the Community Protection Steering Group in its responsibility to:
    - Build Community Capacity and Resilience
    - Protect and Support Vulnerable Members of the Community
    - Combat Terrorism and Serious Organised Crime
    - Develop the Renfrewshire Community Safety Partnership Hub and CCTV; and
- Work with the Scottish Government to implement the findings of the Independent review of Hate Crime.

2.2 The Community Protection Chief Officers Group will continue to seek to ensure that performance and practice are scrutinised at a strategic level, to identify what works well, to highlight any areas for improvement, and to consider where further opportunities for early intervention and prevention activity would achieve improved outcomes for local people.

3. Recommendations

3.1 It is recommended that members note:

- the key activities progressed during 2017/18 by the Chief Officers Group and;
- the identified priorities to be taken forward in partnership during 2018/19.

4. Background

4.1 Renfrewshire Community Protection Chief Officers Group is responsible for leadership, strategic oversight and scrutiny in relation to multi-agency public protection activity and practice in Renfrewshire. The Community Protection Chief Officers Group oversees the work of the following six strategic partnerships:

- Renfrewshire Child Protection Committee
- Renfrewshire Adult Protection Committee
- Multi-Agency Public Protection Arrangements Strategic Oversight Group
- Renfrewshire Alcohol and Drug Partnership
- Renfrewshire Gender Based Violence Strategy Group
- Community Safety and Public Protection Steering Group

Implications of the Report

1. **Financial - none.**

2. **HR & Organisational Development - none**

3. **Community/Council Planning – none**

4. **Legal – none**.

5. **Property/Assets – none**

6. **Information Technology – none**

7. **Equality & Human Rights**

The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals’ human rights have been identified arising from the recommendations contained in the report because it is for noting only. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety – none**

9. **Procurement – none**

10. **Risk – none**

11. **Privacy Impact – none**

12. **Cosla Policy Position – none.**

List of Background Papers

None

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0141 618 7409

Renfrewshire Community Protection Chief Officers Group

Annual Report 2017/18

Table of Contents

1. Introduction

Renfrewshire Community Protection Chief Officers Group is responsible for leadership, strategic oversight and scrutiny in relation to multi agency public protection activity and practice in Renfrewshire. The Chief Officers Group oversees the work of six strategic partnerships which examine the performance and ensure the provision of quality services in relation to child protection, adult protection, wider public protection, offender management, alcohol and drugs, and gender based violence.

As elsewhere in the country, Renfrewshire continues to face challenges in addressing a range of local protection issues, but the Chief Officer Group and the local multi-agency partnerships, continue to recognise, alongside scrutiny and reflection, the value of a proactive focus on awareness raising and preventative approaches to protect people in the community. This has been evident in the work of those groups, agencies and partnerships involved in public protection.

This is the third annual report of the Chief Officers Group. It provides an overview of the main elements of work of those involved in public protection over the course of 2017/18, and in doing so highlights the key benefits of excellent partnership working.
A significant range of activities have been undertaken during 2017/18, which are highlighted within the body of this report and include:

- Following the tragic fire incident within Grenfell Tower, London, the partnership supported Scottish Fire & Rescue Service in their response and reassurance to communities regarding prevention of fire and protection for Renfrewshire communities;
- We have now resettled 120 Syrians and we will continue to work with the Refugee Council to promote the integration of refugees in Renfrewshire;
- The ADP continues to implement the National Naloxone Programme which aims to prevent drug related deaths. Naloxone is a potentially lifesaving drug which can temporarily reverse the symptoms of overdose. Most recent performance shows that 32% of problem drug users have been trained and received a supply of Naloxone;
- 100 cases were referred to Multi Agency Risk Assessment Conference (MARAC) where the victims had been identified as being at risk of serious harm or homicide, as a result 145 children were also discussed.
- Renfrewshire Council and Police Scotland continued to work with the ongoing Scottish Child Abuse Inquiry;
- The Chief Social Work Officer (CSWO) was appointed the Welfare Guardian for 117 adults with incapacity, in addition Renfrewshire has approximately 400 private guardianship orders;
- The Joint Inspection of Adult Health and Social Care took place between October and December 2017 with the report released by the Care Inspectorate/Healthcare Improvement Scotland on 18 April 2018. The report highlights that Renfrewshire Health and Social Partnership are making significant progress on improving residents' health and social services;
- On 22 June 2017 exercise Agora Archway took place in Renfrewshire, the aim of the exercise was to examine the role and responsibilities of both public organisations and the community in response to an immediate threat of a terrorist incident. This exercise was the first of its kind nationally and brought together the Council's Corporate Management Team (CMT) and Council Resilience Management Team (CRMT), as well as key blue light partners and the Grey Space Group; and
- On 14 March 2018, over 200 delegates attended the Renfrewshire Child Protection Committee Conference "Children's Emotional Health and Wellbeing".

2. Renfrewshire Profile

Renfrewshire Council covers an area of 261.5 km2. The latest estimate (mid-year 2017) puts Renfrewshire's population at 176,830 an increase of 900 (0.51%) on 2016. This makes Renfrewshire the 10th largest authority in Scotland in terms of population.

Renfrewshire's population in total is projected to grow over the next period, increasing by 3.2% by 2041. Its age composition is projected to change significantly. While numbers in the 16-64 age group are projected to decline by 2.1%, the 65+ population is set to increase by 24.6% to 2041, most significantly by 76.5% in the 75+ category. (2016 based projections).

In terms of ethnicity, Renfrewshire has a larger proportion of the population identifying as White Scottish and smaller percentages of all minority ethnic groups than the Scottish average. 91% of the population in Renfrewshire identify as White Scottish compared to the Scottish average of 84%. 2.8% identify as Black or Minority Ethnic compared to the Scottish average of 4%. Deprivation remains an issue in Renfrewshire.

According to the Scottish Index of Multiple Deprivation of Renfrewshire's 225 datazones, 13 are in the most deprived 5% in Scotland. This is a local share of 5.8% (13 out of 225) and a national share of 3.7% (13 out of 349). The 2016 release however, also evidenced a decrease in the number of people identified as income and employment deprived since 2012, by 6% and 15% respectively.

Just under a quarter of children in Renfrewshire are living in poverty, and that figure is predicted to rise. This is a key concern as poverty in childhood has a severe limiting effect on the prospects of that child both in the present and later in life. We also know that the nature of poverty is changing too, with poverty rising amongst the young, working and renting. Two thirds of children living in poverty are living in a household where at least one person is working.

Analysis of current trends

There were 107 children on the Child Protection Register at the end of 2017/18, a significant increase on the 2016 year end figure of 72 although this figure is subject to fluctuation. As at 31 July 2017, Renfrewshire had 659 Looked After Children. This amounts to 1.9% of the 0-17 year old population in Renfrewshire total in Scotland and is the sixth highest rate in Scotland.

Domestic violence is also a key issue in the area with 2,230 incidents recorded by Police Scotland from 1 April 2016 to 31 March 2017. This is the seventh highest rate in Scotland at 127 per 10,000 population compared to the Scottish average of 109.

2,578 adult welfare and protection referrals were received by Renfrewshire Health & Social Care Partnership (RHSCP) from April 2016 to March 2017. Of these 800 were adult protection concerns and 1,778 were adult welfare concerns, with most referrals made by the Police. 724 referrals were progressed as adult protection enquiries, from which 58 adult protection investigations were conducted, with 28 resulting in an adult case conference.

In 2015-2016 there were a total of 2515 referrals received of which 946 were adult protection concerns and 1569 were adult welfare concerns. In 2014-15 the overall total was 1708. The latest data therefore confirms the year on year upward trend in reported concerns.

Drug crime has been identified by the police as a key issue the public would like to see tackled. Nearly a quarter of all crimes reported in 2015/16 were drug related. Drug related deaths remain a significant issue with the 2016 figure rising to 42 compared with 19 in 2015.

Renfrewshire Alcohol and Drugs Partnership continues to exceed waiting times targets for access to drug and alcohol services. Outcome data relating to 657 individuals shows an overall improvement within each recovery element. The biggest improvements have been with alcohol use and emotional health. The overall rate of alcohol admissions to hospital per 1,000 people has fallen from 10.1 in 2014/15 to 9.2 in 2016/17.

Employability has been identified as a key element in preventing re-offending after prison or community sentences. Up to 1 in 3 males and 1 in 10 females in Scotland are likely to have a criminal record which may act as a barrier to employment. Community Justice Renfrewshire is supporting an employment network to ensure staff across the partnership can advise people with convictions on securing training and employment.

Homelessness for those released from prison is also an issue as re-offending rates are high and a holistic package of support is required to support desistance from further offending. In Renfrewshire, overall homeless applications have fallen 27% from 1,064 in 2007/08 to 776 in 2016/17. However homeless applications from those leaving prison has almost doubled from 67 to 120 in the same period.

Overall in the Renfrewshire area, there has been a reduction, since 2013-14, of 3% (325) on the total number of crimes recorded by the police. The Renfrewshire area accounts for approximately 3% of the total crime figures in Scotland. Renfrewshire has been successful in diverting women and young people from custodial sentences to community alternatives.

97% of the current prison population for the area are male and 94% over 21. The number of complaints for youth disorder and anti-social behaviour remain lower than historical, reflecting the good work being undertaken at Daily Tasking with referrals to the Youth Team when youth disorder occurs.

The number of incidents of anti-social behaviour reported to Renfrewshire Council Community Safety Service in 2017/18 was 1,939, broadly in line with the figure of 1,916 reported in 2016/17. These figures reflect reports ranging from noise complaints and youth disorder to drug and alcohol incidents and gang violence.

3. Chief Officers Group

Renfrewshire Community Protection Chief Officers Group is responsible for leadership and strategic oversight of performance in relation to multi agency public protection practice in Renfrewshire. The Chief Officers Group has a critical role in ensuring links are made across community and public protection activity at operational, tactical and strategic levels.

The six strategic partnerships covering the areas of public protection work, report into the Chief Officers' Group which oversee the performance and ensure the provision of quality services in relation to child protection, adult protection, wider protection, offender management, alcohol and drugs, and gender based violence. These are:

- Renfrewshire Child Protection Committee
- Renfrewshire Adult Protection Committee
- Multi Agency Public Protection Arrangements Strategic Oversight Group
- Renfrewshire Alcohol and Drug Partnership
- Renfrewshire Gender Based Violence Strategy Group
- Community Safety and Public Protection Steering Group

It is recognised that these areas of protection are very often inter-linked and can impact on each other. A key aim of the Chief Officers Group is to provide strategic leadership and oversight to ensure developments within specific areas of practice support cross cutting activity and have a positive impact on outcomes for local people.

Remit, roles and membership

The core membership of the Renfrewshire Chief Officers Group (COG) is chaired by the Chief Executive of Renfrewshire Council and comprises representation at Chief Executive level, or senior nominee, from the three statutory agencies - Renfrewshire Council, Police Scotland, and Greater Glasgow and Clyde Health Board. They are supported by the attendance of the following or their senior nominee:

- Chief Social Work Officer, Renfrewshire Council or appropriate senior nominee;
- Chief Officer of the Integration Joint Board or appropriate senior nominee;
- Independent chair of Renfrewshire Child and Adult Protection Committees;
- Child Protection Committee lead officer
- Adult Protection Committee lead officer
- Senior officer representing Renfrewshire on the Multi Agency Public Protection Arrangements Strategic Oversight Group (NSCJA MAPPA SOG) or appropriate senior nominee
- Head of Public Protection or Director of Community Resources
- Scottish Fire Service senior officer representation
- Chair of the Gender Based Violence Strategy Group or appropriate senior nominee
- Chair of the Alcohol and Drugs Partnership or appropriate senior nominee

The remit of the group is to provide strategic leadership and scrutiny of the work of the protection business areas on behalf of their respective agencies; to identify successes and areas for improvement and in doing so learn from experience, monitor trends and examine local and national comparisons and take appropriate action where necessary in response to performance where improvement is needed. This includes the consideration of local and national critical incident reports to inform learning where this is appropriate.

The Chief Officers Group reviews performance management information to ensure that this is being collected in a robust and regular manner, that any areas for development are identified and addressed promptly and that consideration is given to identifying further opportunities for early intervention and prevention.

4. Member Officer Group

The purpose of the Member Officer Group is to provide senior elected members with the opportunity to formally and regularly discharge their strategic independent scrutiny and assurance role in relation to key activity and significant developments which have implications for public protection matters in Renfrewshire as they relate to:

- Adult and Child Protection;
- MAPPA (Multi Agency Public Protection Arrangements); and
- Wider Community Safety and Public Protection matters including the Alcohol and Drug Partnership and Gender Based Violence Strategy Group.

The group is comprised of elected members on a cross party basis and key officers of the council as follows:

- Three senior members of the administration
- Two members of the main opposition group
- One other opposition member
- Director of Children's Services and Chief Officer Social Work Officer
- Director of Development and Housing Services
- Chief Officer, Integration Joint Board
- Health and Social Care Partnership operational head of service
- Head of Child Care & Criminal Justice
- Head of Public Protection, Community Resources
- Child Protection Officer
- Adult Support and Protection Officer

Also in attendance will be:

- Independent Chair of the Child Protection and Adult Protection Committees
- Divisional Commander, Police Scotland or appropriate senior nominee

The group will also invite the participation of other key individuals or agencies involved in the areas of concern of the Member Officer Group as required.

5. Strategic Partnerships Activities

5.1 Child Protection

The Renfrewshire Child Protection Committee Conference is held every two years, in parallel to the Adult Protection Committee Conference. The 2018 Child Protection Conference took place on 14 March, 2018 in Paisley Town Hall and was attended by over 200 delegates. The theme of the conference was Children's Emotional Health and Wellbeing, and keynote speakers included:

- Julia Donaldson, Glasgow Infant and Family Team, NSPCC
- Kate Cairns, Kate Cairns Associates;
- Kate Tobin, Dartington Associates; and
- Dan Johnson, Kibble.

Afternoon workshops were hosted by the NHS Sexual Health Team; Who Cares? Scotland; Choose Life; I am Me; SeeMeScotland; and Renfrewshire Educational Psychology Service.

The Committee has also held a series of networking lunches which have been popular and has increased the reach of the Committee. The networking programme will continue to be delivered in 2018-19.

The Committee has also engaged with the work of the Scottish Government's Child Protection Improvement Programme (CPIP). In March 2018, a consultation was launched on a proposed new dataset for Child Protection Committees and Inspection purposes. A multi-agency group will come together to provide a response to the consultation.

In 2017, the CPIP set out a vision for a child protection system in Scotland that places the wellbeing of children at the heart of everything it does. Since then, Renfrewshire Council has received notification on the new Inspection programme for partnerships that have collective responsibility for improving services for vulnerable children, young people and their families. While there will continue to be a focus on child protection there will also be more detailed consideration given to the route into child protection, outcomes for children known to services and corporate parenting.

Work has commenced on a multi-agency casefile audit as part of the Child Protection Committee's ongoing self-evaluation. The audit will focus on the findings of the Children's Services Inspection from 2015. The audit took place in May 2018 and a report on the findings will be presented to the Renfrewshire Child Protection Committee in September 2018.

Performance reports continue to be submitted to the Child Protection Committee on the activities of partners in relation to the children and families who are involved in multi agency protection arrangements. In considering this data the committee has sought more detailed analysis of the trends that are evident from the data. An analysis of the Child Protection Register figures from 1 August 2015 to 31 July 2017 was undertaken. The analysis considered areas such as registrations, de-registrations, family size and age groups. The report highlighted the ongoing work that has taken place across services to increase understanding of the risks associated with unborn children, noting a wide range of professionals are now aware of the risks and as such a range of referrals relating to unborn children are now received. This highlights the importance of inter agency training and working, which will continue to be promoted.

A spotlight repost was published in relation to homelessness in Renfrewshire as it affects households with children. The report highlighted the positive work being done to tackle and prevent homelessness through partnership working. Positives noted include that families are never placed in bed and breakfast accommodation and that the average time to conclude our homelessness duty towards families in Renfrewshire is lower than the national average.

The Scottish Child Abuse Inquiry continues to look at the abuse of children in care. Throughout 2017-18 the Inquiry has heard from witnesses who were served with formal notices by the Inquiry. Phase 3 will begin in Autumn 2018 and will investigate residential child care establishments run by large child care providers including Quarriers, Aberlour and Barnardos.

5.2 Unaccompanied Asylum Seeking Children (UASC)

The UK Government introduced secondary legislation in January 2018 which extended the National Transfer Scheme for UASC to local authorities in Scotland, Wales, and Northern Ireland. The secondary legislation had been on hold since 2016. Renfrewshire Council is one of several local authorities which worked with COSLA to produce a transfer protocol which fits with Scottish legislation on looked after children which will support the implementation of the legislation.

The National Transfer Scheme is a mechanism to achieve a more even distribution of UASC across the UK. Participation is voluntary however the legislation does allow it to be mandatory. The National Transfer Scheme is based on quotas and local authorities above their quota can apply to transfer UASC to another local authority.

Renfrewshire Council has accepted a number of children under the Vulnerable Young Person's Resettlement Scheme and the planned resettlement of UASC from mainland Europe. Renfrewshire Council remains committed to the principle of resettling vulnerable children and young people.

On 12 December 2017, the Leadership Board were requested to homologate the decision to accept seven unaccompanied children on humanitarian grounds and to agree that Renfrewshire Council will consider VCRS cases for resettlement for a period of 2 years from December 2017.

The unaccompanied asylum seeking children team has become well established and has developed links with local partners including the Migrant Help, a Charity that supports asylum seekers, refugees and victims of human trafficking and modern slavery.

In addition, initial meetings have taken place with the Refugee Council to explore opportunities to work more closely together to promote the integration of refugees in Renfrewshire, now that over 120 Syrians have resettled here.

5.3 Adverse Childhood Experiences

During the past twelve months there has been a growing awareness of the impact of Adverse Childhood Experiences (ACEs) on outcomes for children. Renfrewshire Children's Services agreed that action should be taken to ensure that staff across the partnership are provided with the best evidence to help them understand the impact of Adverse Childhood Experiences and to assist them in ensuring that appropriate supports are provided to help children grow and develop to their full potential.

As part of the programme to raise awareness Educational Psychology Services purchased the rights to screen a film "Resilience – The Biology of Stress and the Science of Hope". This film highlights the research and evidence on the impact of ACEs and how best to support children. The film was "premiered" in Renfrewshire at an event attended by over 200 senior leaders from schools and early learning centres. The screening was followed by a panel discussion aimed at helping staff explore how their practice can change outcomes for children.

Following the premiere there have been a number of screenings and panel discussions in schools and communities across Renfrewshire. Further multi-agency and community events are scheduled for the coming year.

The next stage of development is evaluating the current activity to-date, planning the roll out of further multi-agency screenings and discussion scheduled for the Child Protection Committee to agree how best to support work on addressing ACEs as part of the programme for 2018/19.

5.4 Anti-Bullying

Bullying takes many forms and exists wherever groups of people come together. Children's Services recognises that it has a significant and vital role to play in tackling bullying across its services.

Influencing and achieving change when it comes to bullying behaviour is a complex process which takes time. Whether bullying behaviour takes place in the playground or online the impact is the same and requires a consistent and collaborative approach. In order to resolve this, a collective effort is required from teachers, parents and pupils for the most effective outcome and this is the approach being adopted in Renfrewshire.

The current anti-bullying policy in Renfrewshire was agreed by the Education and Children policy board in May 2015. The development of this policy was informed by national guidance and involved a broad range of stakeholders including respect*me* Scotland's anti-bullying organisation. A review of this policy is currently being undertaken following the recent publication of updated national guidance. This review includes engagement with a broad range of stakeholders and is supported by respectme.

In addition to the ongoing policy review and development work it is important to note the broad range of activity which has taken place over the past year to support our schools. This includes:

- respect*me* have provided children's services with valuable support through the availability of a self evaluation toolkit. This supports schools to review their current provision and plan for the future. The outcome of this is evident in school standards and quality reports and school improvement planning.
- A range of awareness raising activities have been undertaken with parent council chairs and head teachers. This has provided a valuable focus for parents and schools to consider the implication of current practices, and areas for improvement.
- As a result of this awareness raising a series of training events have now been undertaken for staff and parents. These are facilitated by respect*me* and focus on ensuring a shared understanding of best practice.
- There are a range of programmes running in schools which support young people and are based on the wellbeing indicators (Safe, Healthy, Achieving, Nurtured, Active, Respected, Responsible, Included – SHANARRI).
- Renfrewshire's Youth Commission has highlighted mental health of young people as a significant issue which requires ongoing support and prioritisation.

5.5 Adult Support and Protection (ASP)

A revised suite of performance information has been developed to support Renfrewshire Adult Protection Committee in their role of scrutinising performance. This has included incorporation of Mental Health Officer work (relating to the Mental Health (Care and Treatment) (Scotland) Act 2003 and Adults with Incapacity (Scotland) Act 2000). The revised data suite also includes information relating to Inter-agency as well as NHS Greater Glasgow and Clyde ASP Learning and Development activity within Renfrewshire on a quarterly basis.

An Initial Case Review was undertaken in June 2017, following a request submitted by the Scottish Fire and Rescue Service. This was chaired by John Paterson, independent chair of the Renfrewshire Adult Protection Committee (RAPC). The decision was taken that this review would not progress to a Significant Case Review (SCR). The findings from the review were presented to RAPC in August 2017 and an Action Plan was generated to address the key learning points identified. The Action Plan continues to be reviewed on a regular basis by the RAPC and will continue to be so until all actions are complete. An inter-agency learning event based on this ICR is scheduled for June 2018 in order for learning to be shared across a wide range of services.

Views of all partners of RAPC were sought to identify key desired outcomes for improvement planning, based on themes emerging from the *2014-2016 Renfrewshire Adult Protection Committee Independent Convenor's Biennial Report*, and the *RAPC Self-Evaluation of Adult Support and Protection: 2016*. RAPC now has an *Inter-agency Improvement Plan 2017-2019*, which was approved by RAPC in November 2017.

The multi-agency Financial Harm Subgroup of the RAPC developed a comprehensive and ambitious work plan covering goals to address prevention, identification, and intervention in relation to financial harm over the next two years. The Work Plan was approved by RAPC in February 2018. It will be kept under regular review by the subgroup and progress will be considered by RAPC at every third meeting.

The Financial Harm Subgroup organised a Financial Harm half day event on 22nd March 2018 at Johnstone Town Hall. Paul Comley, National Adult Protection Coordinator, delivered a highly informative presentation on financial harm in a national Adult Support and Protection context. The event was attended by 80 people and evaluated highly in terms of learning outcomes. Monthly financial harm awareness sessions are ongoing to continue learning on this topic.

To promote a coordinated approach to inter-agency learning and development regarding Adult Support and Protection, an updated ASP Learning and Development Strategy was produced in late 2017, which underpins work being done between now and 2020.

Two large scale adult protection investigations have been conducted within care homes in Renfrewshire during this financial year (one still to be concluded). Renfrewshire's Large Scale Investigation Guidance and Procedures are currently being updated to reflect lessons learned during the two most recent large scale investigations (LSI) and to incorporate learning from an Appreciative Inquiry carried out in relation to an LSI at Abbey Court Older People's Care Home in 2016.

Demand for Adult with Incapacity (AWI) reports, which require to be completed by a qualified Mental Health Officer (MHO), has risen steadily over recent years (this mirrors increases across Scotland). In 2017-2018 Renfrewshire received 208 requests for AWI MHO reports. In the previous year there were 202 such requests (and 137 in the 2015/2016 year). Orders where the Chief Social Work Officer (CSWO) is appointed Welfare Guardian have also risen significantly in recent years, from 79 in March 2015, to 107 in March 2016, to the current figure of 117. Each order requires a qualified social worker to act as the "nominated officer" on behalf of the CSWO for day to day management of the case. In addition, there are currently approximately 425 private welfare guardianship orders running throughout Renfrewshire. These require a minimum of one statutory visit by a guardianship supervisor after being granted.

The other main area of work for the Mental Health Officer Service is around the Mental Health (Care and Treatment) (Scotland) Act 2003. The number of detentions under the Act has risen by 16% in the past year. There has been an increase in referrals (all types) to the MHO Service of 44%.

Within Renfrewshire an ASP self-evaluation is completed on a biennial basis, inclusive of a case file audit and consultation with key stakeholders. A multi-agency and single-agency (social work) case file audit commenced in March 2018 and resulted in the audit of 100 files. A focus was placed on the period between an Adult Support and Protection referral and a decision for "no further action" to be taken under ASP at the inquiry stage of the process. The intent was to review, in particular, decision-making at this early stage in the ASP process; as well as to review managers' input and recording. A report on results of the self-evaluation will be published later in 2018; the findings in this report will contribute to the RAPC Biennial Report due to Scottish Government in October 2018.

5.6 Inspection of Adult Health and Social Care in Renfrewshire

On 11 September 2017, the Chief Officer, Renfrewshire Health and Social Care Partnership received notification from the Care Inspectorate and Healthcare Improvement Scotland that a joint inspection of adult health and social care services in Renfrewshire would be undertaken in the coming months. The aim of the inspection is to ensure that the relatively newly formed integration authority has the necessary building blocks in place to plan, commission and deliver high quality services in a co-ordinated and sustainable way.

The purpose of this inspection was for the partnership to answer the question "How well do we plan and commission services to achieve better outcomes for people?" Included within the inspection was an evaluation of how people experience our services and the extent to which the partnership is making progress in its journey towards efficient, effective and integrated services which are likely to lead to better experiences and improved outcomes over time.

The joint inspection took place between October and December 2017. In preparation for the inspection, the partnership undertook a self evaluation across the following Quality Indicators that the Care Inspectorate and Healthcare Improvement Scotland had identified as being in scope for the inspection:

- Quality Indicator 1 - Key performance outcomes
  - 1.1 Improvements in partnership performance in both health and social care
- Quality Indicator 6 – Policy development and plans to support improvement in service
  - 6.1 Operational and strategic planning arrangements.
  - 6.5 Commissioning arrangements
- Quality Indicator 9 – Leadership and direction that promotes partnership
  - 9.1- Vision, values and culture across the partnership
  - 9.2 - Leadership of strategy and direction.

The partnership self evaluated each of the Quality Indicators as Level 4 – Good using the Care Inspectorate/Healthcare Improvement Scotland's six point scale below.

Level 6	Excellent	Outstanding or sector leading
Level 5	Very good	Major strengths
Level 4	Good	Important strengths with areas for improvement
Level 3	Adequate	Strengths just outweigh weaknesses
Level 2	Weak	Important weaknesses
Level 1	Unsatisfactory	Major weaknesses

The self evaluation together with supporting evidence and examples of good practice were submitted to the Inspection Team on 27 October 2017. Following this the inspectors carried out a series of onsite scrutiny sessions with staff, partners, providers, carers and service users. In addition, a staff survey was undertaken by the inspectors and the results of which have informed the inspection report. The results of the survey were presented to the Health and Social Care Senior Management Team on 10 November 2017. At that time the response rate (34%) was the highest received by the inspection team and it was also noted that the overall response to the questions was more positive than the national average.

On 18 April 2018, The Care Inspectorate and Healthcare Improvement Scotland published their findings from the inspection in the report 'Joint Inspection (Adults) the Effectiveness of Strategic Planning in Renfrewshire'. The report highlights that Renfrewshire Health and Social Partnership are making significant progress on improving residents' health and social services, it also concurs with the self assessment that Quality Indicators 1 and 6 are Level 4 – Good. In advance of the inspection, the partnership was advised that Quality Indicator 9 would not be given a formal grade, however, positive comments on this indicator have been provided within the report.

5.7 Gender Based Violence

During 2017/18, the Gender Based Violence Steering Group began the process of developing Renfrewshire's Gender Based Violence Strategy. It is envisaged that the strategy will be finalised by summer 2018.

Training continues to be a significant focus for the partnership and a training calendar for 2017/18 was develop and delivered. The calendar includes a broad spectrum of training and included general awareness raising of gender based violence; specific training on domestic violence; and more targeted training for the Health and Social Care Partnership's Children's Services staff to increase their capacity and skills to enquire about, and respond appropriately to, disclosures of domestic violence. In addition, staff within the Children and Family Teams and Family Nurse Partnership also completed sensitive routine enquiry training and has been trained on the completion of the Risk Identification Check list and referral to Multi Agency Risk Assessment Conference.

The records of the Health and Social Care Partnership's Children's Services and Community Mental Health Service continue to be audited twice a year to identify the extent to which new service users are routinely asked about gender based violence and the number of referrals made to specialist services. In 2017/2018 56% of service users were asked about their experience of gender based violence (178 from 320 audited records) and 8 referrals were made. The results of the audit initiated the comprehensive training programme delivered to Children's Services. This programme of training will be extended to all Mental Health and Addiction Services in 2018/2019.

We continue to embed the Safe and Together model of practice that aims to improve how child welfare systems and practitioners respond to the issue of domestic abuse. It provides a common framework for practitioners to consider and discuss concerns, challenges and solutions for families experiencing domestic abuse. In May 2018, social work, health and police managers will attend training specifically designed for child protection supervisors in East Renfrewshire.

Renfrewshire Council commissioned a repeat of Dartington's ChildrenCount Survey. It captured the well-being of over 85% of children and young people aged 9-16 year in Renfrewshire during this time. As part of this survey some additional questions where include for those aged 11 plus which elicited views about emotional control within romantic relationships. The results of the survey indicated that this was a concern for 25% those who responded and was relevant irrespective of gender. Throughout 2017/18, Children's Services have undertaken engagement with young people to better understand explored the issues that lie behind these results. This has been identified as a key priority for the Children's Services Partnership and will be included as part of the Children's Partnership Plan recently approved by the Education and Children's Services Policy Board.

Work is underway to develop Youth Workers Guidance for Gender Based Violence. The guidance will support those working with young people in Renfrewshire to respond appropriately to disclosures of gender based violence or to concerns it may be happening. In addition, joint training is being planned for key staff groups in education and residential services around identifying and supporting young people experiencing gender based violence.

Mentors in Violence Prevention (MVP) is a peer mentoring programme that gives young people the chance to explore and challenge the attitudes, beliefs and cultural norms that underpin gender-based violence, bullying and other forms of violence. MVP is fully embedded in three schools in Renfrewshire and the roll-out to the next three schools is planned, with training due to take place in May 2018.

Renfrewshire Council is currently developing a 'Statement of Intent for Domestic Abuse' to ensure that there is a process to manage and support employees experiencing domestic abuse.

5.8 Community Safety and Public Protection

Building Community Capacity and Resilience

Empowering Communities has become a key driver to work with and engage communities in service delivery. The Renfrewshire Community Safety Partnership already works closely with communities, supporting them in undertaking environmental clean-ups, attending and supporting community groups, Community Councils and Local Area Committees and working with individuals and groups to investigate and resolve issues, facilitate solutions and deliver community led events.

Youth Antisocial Behaviour Initiative

During the summer weekends of 2017, the Erskine Youth initiative was implemented as part of the delivery action plan of the Erskine Community Safety Group and Building Safer, Greener Communities Multi-agency Tasking Group. Its main focus was to educate and inform the community about the dangers of alcohol and increase public confidence and reassurance that Police Scotland and partner agencies are committed to resolving this problem. Police Officers, including mounted, plain clothed & cycle patrols; Wardens and Youth Officers were deployed in 'hotspot' areas resulting in several youths under the influence of alcohol and/or drugs being conveyed home to the care of their parents/guardians. This initiative was so successful that it has been replicated in Paisley Town Centre, Barshaw Park and Gallowhill. This will continue throughout 2018 to disrupt and deter underage drinking

Street Stuff

The Street Stuff programme continues to be delivered throughout Renfrewshire. Over the past year the programme received additional funding from the Council to respond to issues identified by the Renfrewshire Tackling Poverty Commission. This allowed the programme flexibility to deliver activities in targeted areas which resulted in the overall numbers of participants remaining at a high level. The programme recorded 31,218 attendances during 2017/18 including the provision of over 5,000 healthy meals. Nearly 80% of sessional workers on the programme are former participants and a number of volunteers have delivered over 200 hours of voluntary work through supporting their personal development and employment and training potential.

The University of the West of Scotland undertook an independent evaluation of the Street Stuff programme in June 2017. This evaluation highlighted that Street Stuff provide young people with positive activities, improving social inclusion and giving access to facilities and experiences in their communities supporting positive growth and development. In addition to a programme of activities and healthy eating for young people, Street Stuff includes the provision of a healthy meal to help young people who may not always have access to meals and provides volunteering and employment possibilities for young people some of whom are growing up in areas characterised by multiple deprivation.

2017/18 was a very successful year with the programme being recognised by winning 3 prestigious awards. Street Stuff won the COSLA Excellence Awards in 'Local matters' category; Community Champion award at ROCCO Business Awards 2017 and the Community Engagement category at the Scottish Public Sector Awards.

Purple Flag

Purple Flag was awarded to Paisley in February 2017 in recognition of the high standards and support for Paisley's evening and night time economy. The award was presented by the Association of Town Centre Management to Paisley First, who represent Paisley's Business Improvement District. Since Paisley gained their Purple Flag, ongoing work has included consulting with students at UWS Freshers Fair; erecting a Purple Flag in County Square to increase awareness; introducing a Purple Flag discount card for students; creating a Paisley Purple Flag web page with an interactive map highlighting businesses where discounts are available and advertising in Gauze Street and the hoardings on Renfrew Road. Purple Flag was successfully renewed and retained in 2018 with a full accreditation required in October 2018.

Protecting and Supporting Vulnerable Members of the Community

Demographics are changing within the Renfrewshire area, people are living longer and are living in smaller households. For some this makes them potentially more vulnerable, either to becoming the victim of accidents or potentially being targeted by criminals or becoming susceptible to frauds and scams. There is also the potential for people to become vulnerable through mental or physical incapacity or through abuse of drink or drugs, in some cases exacerbated by poverty and in many cases by being relatively socially isolated. In extreme cases, people can become vulnerable to being involved in organised crime or terrorism or can suffer life threatening levels of violence or domestic abuse.

Renfrewshire Multi Agency Risk Assessment Conference (MARAC) Annual Report

A Multi Agency Risk Assessment Conference (MARAC) is a multi-agency victim focused meeting where information is shared on the highest risk cases of domestic abuse between different statutory and voluntary sector agencies. The role of the MARAC is to facilitate, monitor and evaluate effective information sharing to enable appropriate actions to be taken to increase public safety. In 2017/18, 100 cases were referred to MARAC where the victims had been identified as being at risk of serious harm or homicide and discussed 145 children.

To highlight this best practice, the MARAC Annual Report is published and available on the Council website. Key partners from Public Protection, Police Scotland and the Criminal Justice System have contributed to the report highlighting the importance they place in the Renfrewshire MARAC and the contribution it makes to protecting the most high-risk victims of domestic abuse and their children.

The Annual Report will also support the work now being taken forward by Public Protection, through the Gender Based Violence Strategy Group to support employees with guidance and awareness raising linked to the Council's Supporting Attendance policy. More information on the detailed work undertaken in this regard is reported under the Gender Based Violence Update.

I Am Me/Keep Safe

The I Am Me Cinebus tour has been further developed to include new resources, including a book developed by the team and a #MakeaDifferenceScotland hashtag on Twitter. The programme continues to raise awareness of disability, bullying and hate crime and reached around 12,000 Renfrewshire primary school pupils. The programme has been designed to complement the curriculum for excellence and a progressive lesson plan is available for each school year (from P1-P7). Feedback from around 2,500 participants highlights that 98% of participants have enjoyed the I Am Me visit, 99% know bullying is wrong and 94% would tell an adult if they, or someone else was being bullied.

Keep Safe works in partnership with Police Scotland and a network of local businesses to create 'Keep Safe' places for disabled, vulnerable, and elderly people when out and about in the community. Keep Safe is extending across Scotland, with 14 local authorities actively rolling out the initiative. There are now 366 Keep Safe places across Scotland, including 131 in Renfrewshire. The Keep Safe Ambassador programme is also going from strength to strength and now has 128 High School Ambassadors, 70 Police Scotland Youth Volunteer Ambassadors, 35 Ambassadors with a learning disability and 50 Keep Safe Ambassador trainers across Scotland.

I Am Me won further awards in 2017 by gaining the Best Community Project at the Herald Scotland Diversity Awards and the Disability Charity of the Year at the Charity Champions Awards.

Developing the Renfrewshire Community Safety Partnership, Hub and CCTV

The Renfrewshire Community Safety Hub has been a success with an integrated approach and CCTV operations now running 24 hours per day. Out of hours winter maintenance and key holding services for flood prevention systems now operate out of the Hub. Some key successes include the CCTV operators spotting someone carrying a weapon, identification of young people that are breaching curfews, support and identification of missing persons, increased awareness of homelessness within Paisley Town Centre and support for operations such as *"Operation Winter Shield"*, essential to deterring and disrupting knife crime.

In March 2018, the CCTV control room installed Briefcam software to the public space CCTV system. Briefcam is a rapid video review and search solution with real-time alerting. It enables the CCTV operators to review hours of video in minutes, rapidly pinpointing people and objects of interest and receive real-time notifications of critical events. Quick searches can be filtered around objects such as individual's gender, particular items of clothing or vehicle type.

The Renfrewshire Community Safety Partnership continues to hold a daily tasking meeting to review community safety incidents which have occurred over the past twenty-four/forty-eight hours and tasks them to the relevant partners. This collaborative partnership approach enables information sharing and pooling of resources to tackle antisocial behaviour and other issues throughout Renfrewshire. Daily tasking had a very successful year with regular attendance of all key partners who processed over 5,000 referrals.

Responding to the tragic incident at Grenfell Tower

Following the tragic fire incident on 13 June 2017 within Grenfell Tower, London, Development and Housing Services together with other key partners have supported Scottish Fire & Rescue Service in their response and reassurance to communities regarding prevention of fire and protection for Renfrewshire communities. As a result, a multi-agency group was established to:

- review the measures that are in place to ensure fire safety at our high rise blocks;
- agree any actions that may enhance these fire safety arrangements; and
- ensure tenants and residents are kept up to date and re-assured of our ongoing commitment to fire safety

In response, a range of actions have been undertaken which include:

- an independent assessment of the external cladding system at five blocks which concluded the materials used for both cladding and insulation are not the same as those used at Grenfell Tower and all materials used complied with the Scottish Building Regulations;
- a fire safety assessment of each of the five blocks where no adverse concerns in relation to the fire risk of the buildings were identified;
- installation of communal area fire alarm systems in five blocks, with all fourteen blocks linked to a 24 hour monitoring system;
- council properties had 60 minute fire resistant front doors fitted and this was extended to privately owned properties where it was identified that the existing door did not meet the necessary fire resistance rating; and
- written correspondence to all residents, as well as drop-in sessions to allow residents to meet face to face with Housing Services staff and Scottish Fire & Rescue Service officers
- an independent audit of fire safety measures within each of the fourteen blocks has recently concluded and the outputs are currently being reviewed to inform future programmes of work;
- works have commenced to install an automatic fire suppression system at the bin areas of each of the fourteen blocks;
- works to upgrade the smoke detection alarms within tenants' properties have been completed in three blocks, with works currently underway in a further two further blocks. These improvements will be rolled out to all high rise blocks over the course of 2018;

- a specialist consultant has been appointed to advise on the replacement of the balcony enclosure panels at George Court, with this work planned for completion later this year;
- regular review of any callouts to high rise blocks which Scottish Fire & Rescue Service have responded to: and
- Proposals are currently being developed for the Council's Caretaking service, which will ensure an enhanced staff presence at 10 of the high rise blocks to 7 days a week , (the other 4 high rise blocks already have concierge staff on duty 24/7). The concierge and caretaking staff play an important fire prevention role in inspecting common areas, checking fire doors, ensuring the safe removal of rubbish, and providing on-site advice and information to residents.

The multi-agency meetings will continue to take place and progress will be reported to the Council's Communities, Housing & Planning Policy Board.

Safety Alert – Fentanyl

Following discussions at Daily Tasking on 30 June 2017 with Police Scotland and partners, a Safety Alert was issued in relation to a drug called "Fentanyl". Fentanyl is a Class 'A' controlled drug under the Misuse of Drugs Act 1971. It has a legitimate medical use for the management of malignant and non-malignant chronic pain. Medicinally, it is commonly dispensed in the form of a patch which is placed on the skin. Fentanyl is active at an extremely small dose and is therefore a very potent drug. A very small amount ingested, or absorbed through the skin, can kill. Other drugs, currently being used in Renfrewshire, are being monitored in the same way to ensure partners are aware of issues.

5.9 Counter Terrorism and Serious Organised Crime

The nature of terrorism and the threat that terrorist activities pose to communities has changed significantly in the last few years. The attacks in Manchester and London provided an additional focus for security services and the Government and additional information on the nature of the threat in the UK. This has impacted on the planned launch of a revised Counter Terrorism Strategy which has been delayed to ensure that it reflects the most up to date picture and approach - particularly in relation to the Prevent Strategy (preventing people from being drawn into terrorist activities). The current timescale for the publication of the expected CONTEST 3 strategy that the Home Office is now working on is around May 2018.

Over the past year it has been recognised by the members of the Renfrewshire Multi Agency CONTEST/Prevent Group that there is a clear and growing connection between groups and individuals that engage in or have an interest in terrorist activities and those that have an interest in serious organised crime. In addition, these links are in place across a wider geography than Renfrewshire. To address this it has been agreed to establish a strategic meeting that has the responsibility and a role to consider both Counter Terrorism and Serious Organised Crime issues at a Police Divisional level.

A key aspect of the work of the group will be working with the assistance and direction of Police Scotland at both Divisional and National levels to make relevant links between the Counter Terrorism and Serious Organised Crime agenda and putting in place appropriate interventions that enable partners to make a real difference in preventing people from becoming terrorists or supporting terrorism, deterring and disrupting serious organised crime activities.

Self-Assessment process for Peer Support and Review

Over the past year the Home Office have developed and introduced a Peer Review self assessment process for local authorities in England and Wales with a specific focus on the Prevent Strategy element of the Counter Terrorism strategy.

The Scottish Government have now introduced a supportive review approach in Scotland, based on the Scottish Guidance and using a similar collaborative approach. They have been working with the Home Office to build on their experience and the Head of Public Protection attended a Home Office Training course in February 2017 along with 2 other Scottish colleagues and received accreditation as a Home Office Prevent Peer Reviewer. During 2018 the Head of Public Protection participated as one member of a Home Office team undertaking the first one-day peer review assessment in Gloucester and supported the Scottish Government training of the first cohort of Scottish Prevent Peer Reviewers.

Training and Awareness Raising

Exercise Agora Archway took place on 22 June 2017, supported and run by SMARTEU the Police Scotland training and exercising unit. Exercise Agora Archway was a full day multi agency exercise. It was set against a backdrop of the UK Terror Threat level being raised to "Critical" in light of an incident taking place in the UK and the local implications of this. The exercise was successful in making participants on the Corporate Management Team and Council Resilience Management Team consider the impact on business continuity that an incident of this type might create and highlighted the fact that all response agencies would be under resource pressures and that the normal expectations around capacity to respond to incidents would be constrained in light of a move to critical.

Over 2017/18 there has been a focus on training of key employees in relation to Prevent awareness. Over 100 people have received face to face training and awareness raising by the Head of Public Protection or Police Scotland. These sessions will continue in 2018/19.

Serious Organised Crime (SOC)

The Council Integrity Group Action Plan has a focus on identifying, understanding and managing organisational risk and vulnerabilities, and is structured under 5 key themes -Governance; Insider Threat; Workforce Support; Procurement and ICT.

The Head of Public Protection has now provided training to Elected Members on counter-corruption and Serious Organised Crime, and similar training has been carried out by the Chief Auditor on Fraud issues. Officers on the Council Resilience Management Team have also received awareness raising and training on Serious Organised Crime issues and how they might impact on our organisational resilience, and the Home Office have provided training to Customer Service Staff in relation to recognising forged and fake documentation.

Frauds and Scams

A focus on frauds and scams throughout the year has identified key risks for the community and has undertaken relevant training and awareness raising for employees and elected members. This will continue in 2018 / 2019. Technology is now recognised as a key enabler to fraud where the aim is to obtain customers' details using social engineering tools and obtaining information by phone or by SMS text message

5.10 Multi Agency Public Protection Arrangements and Community Justice

The activity of the Multi Agency Public Protection Steering Group, which oversees the partnership working in relation to Sexual and Violent Offenders, was published in the annual report in October 2017.

As we come towards the end of the first year of the new community justice arrangements the Renfrewshire Community Justice Outcome Improvement Plan 2018 – 21 was developed and consulted on. The finalised plan was published on 31 March 2018 which identified the key priorities for the partnership as, improving community understanding and participation in community justice, developing opportunities for routes into employability for people with convictions, tackling homelessness for prison leavers and raising awareness of services and pathways available in Renfrewshire which support people to improve mental health and wellbeing.

The partnership was successful in securing funding from the Scottish Government's Employability, Innovation and Integration Fund to support training, skills development and employability activities for people with convictions and the development of the employability pipeline in Renfrewshire. A Steering Group for the project has been established and a successful launch event was held in February 2018.

Engagement with partners and local women is taking forward the development of a Women's Centre in Johnstone. Kind Accepting Inspiring Renfrewshire's Open Space (Kairo's) sets out to be a safe and welcoming place for women of all ages, offering a variety of opportunities and activities which will have good links and connections with other local services. Links have been made with women serving community payback orders who have been involved in the centres development and fashion show event held at Johnston Town Hall in March 2018.

An effective relationship has been established with Families Outside. Posters and business cards have been co-designed and distributed across Renfrewshire to raise awareness of community justice and the work this charity does to support families affected by imprisonment. A number of Training events have taken place with social work staff, home link workers and Families First teams in order to raise awareness of the impact on families and children with a family member in prison. Education staff also had the opportunity to receive this training within HMP Lowmoss which provided the opportunity and better understanding of the implications and experience of children visiting a parent in custody.

5.11 Alcohol and Drugs Partnership

Drug Related Deaths

The ADP continues to implement the National Naloxone Programme which aims to prevent drug related deaths. Naloxone is a potentially lifesaving drug which can temporarily reverse the symptoms of overdose. Training is offered on how to administer Naloxone and basic lifesaving skills including Cardio-pulmonary Resuscitation (CPR). Naloxone is offered to all individuals as part of their assessment as well as family members and key partners to administer as required. Most recent performance shows that 32% of problem drug users have been trained and received a supply of Naloxone.

Recovery Oriented Systems of Care

Enhancing the Recovery agenda in Renfrewshire continues to be a key priority for the ADP which funded two new initiatives. The first initiative gave individuals, who have lived experience of drugs and alcohol, the opportunity to train to become peer support workers. In partnership with the NetWork Service, participants accessed local training prior to attending University to gain a professional development award in Peer2Peer working. Paid work placements were sourced and individuals gained experience working in the NHS, the Department of Work and Pensions and Third Sector agencies. Sixteen individuals completed the Project and as a result four have gained permanent employment.

Recovery Across Mental Health (RAMH) was also funded by the ADP to provide financial advice and support to individuals affected by mental health and addictions. The project engaged with individuals who are least likely to voluntarily seek support and aimed to build on the successful pilot which targeted specific pharmacies who were part of the local enhanced service. Links were established with a number of partner organisations including the Sunshine Recovery Cafe to promote general mental health awareness which aimed to develop and enhance positive coping strategies to self-manage life and promote financial inclusion.

Prevention and Early Intervention

Brighter Renfrewshire Alcohol Awareness Week (BRAW) was funded for a third year. During 2017, 22 groups received funding ranging from small community groups, schools housing associations to the private sector. The funding was used to develop local projects which aimed to increase awareness of the low risk drinking guidelines and reduce the harm caused by alcohol. An evaluation of the effectiveness of the BRAW campaign was also carried out.

A pilot was set up to enhance joint working with Scottish Fire and Rescue Service (SFRS) and local alcohol and drug services. This was enhanced by delivering alcohol and brief intervention training to SFRS to improve performance in this area and to allow equity of referral process to alcohol and drug services for vulnerable individuals and the relevant follow up as required. The award winning initiative enabled early identification of individuals experiencing issues with alcohol and appropriate referral on to services.

Awareness and knowledge base has been increased as a result of alcohol and drug training being provided to 53 staff members attending from the HSCP, Renfrewshire Council and the third sector.

Through the development of the Community Plan in 2017, partners identified a specific equirement to focus on the issue of drug and alcohol misuse in Renfrewshire. On 21 February 2018, the Community Planning Executive Group agreed that the Head of Policy and Commissioning, Renfrewshire Council would take the lead on undertaking a strategic needs assessment and deep dive exercise to gain a better insight into drug and alcohol misuse in Renfrewshire and its impact. Early discussions have taken place in terms of linking to the Public Health Directorate in NHS Greater Glasgow and Clyde and also the consideration of potential examples of best practice from other areas and countries.

6. Strategic Focus

6.1 As detailed in Section 3, Renfrewshire Community Protection Chief Officers Group is responsible for leadership, strategic oversight and scrutiny in relation to multi-agency public protection activity and practice in Renfrewshire. The group also regularly scrutinises performance information across all areas of community protection activity, focusing in on areas where there are changes in referrals, incidents or concerns reported, or where national research or legislation suggests improvements or change to practice or multi agency working.

6.2 In addition, the group supports services and partners to address emerging challenges, examples of which include:

- Ensuring that Renfrewshire is represented at national leadership events/forums to strengthen our already strong partnership and links in child protection;
- Responding to the requirements of the national Child Protection Improvement Programme;
- The Home Office funding shortfall for Vulnerable Young Person's Resettlement Scheme and the planned resettlement of UASC as this does not meet the full costs of care and support of the children;
- Increasing number of welfare guardianships granted to the Chief Social Work Officer;
- Support the implementation of Renfrewshire's updated Bullying Policy for educational settings;
- Implement Equally Safe, the joint Scottish Government and COSLA strategy to prevent and eradicate violence against women and girls in Scotland;
- Continue to developing professional awareness of the Renfrewshire MARAC process and explore the potential to share care plans and other relevant information where proportionate, relevant and necessary to safeguard victims of domestic abuse;
- Monitor the implication of the introduction of the presumption against short sentences during 2018-19 on our community based resources;

- Consider the implications of the reduction of Public Social Partnership funding to Lowmoss PSP, Polmont YOI and the Shine Worker;
- Maintaining the 65% reduction in anti-social behaviour from 2009 levels through the early intervention Daily Tasking process and targeted deployment of Renfrewshire Wardens, the Youth Team, Street Stuff and Police Scotland.
- Mitigate the risk of serious organised crime including:
    - Insider Threat - the main risk is that the Council is vulnerable to fraudulent or damaging activity from people that have legitimate access to systems, processes, data or information but who use that access for illegal or unauthorised activities;
    - Workforce support - focussing on improving organisational arrangements for understanding and monitoring competing outside interests and influences that might leave employees vulnerable to exploitation or coercion, such as outside business interests, gifts and hospitality and whistle blowing;
    - Procurement - protecting contracts, commissioning and purchasing against the risks of corruption and serious organised crime;
    - ICT and Cyber security focuses on protecting data and core ICT services from both internal and external threats. It is a growth area for vulnerability and Serious Organised Crime. The risk faced here is that programmes, systems and data could potentially be hacked and exploited for fraudulent / criminal purposes; with denial of service, ransomware attacks, corruption of data, or the publication or abuse of sensitive information being potential consequences;
- Continue to implement the Drug Deaths Action Plan;
- Reduction in national funding to Turnaround, a service for men and women involved in the Criminal Justice system that offers a flexible, person-centred residential and community based support.

6.2 As a result, the strategic focus of the Chief Officers Group for 2018/19 is as follows:

- Continue to have a spotlight on alcohol and drugs misuse across Renfrewshire and drive forward local actions to reduce the impact on individuals, families and communities;
- Ensure that the findings from the Joint Inspection of Adult Health and Social Care are embedded in the Strategic Planning arrangements of the Health and Social Care Partnership;
- Give consideration to the findings and recommendations of the recent national Thematic Inspection of Adult Support and Protection to ensure that all appropriate actions are taken in a Renfrewshire context;
- Continue to work closely with our colleagues in the Adult Protection Committee and raise awareness of adult support and protection services;
- Consider the multi-agency response to supporting people in distress;
- Maintain multi agency audit and review activity;
- Support the implementation of Renfrewshire's Community Justice Outcomes Improvement Plan 2018-2021 and respond to the planned presumption against short sentences;
- Finalise our Gender Based Violence Strategy 2018-2021, develop our performance framework and implement the national quality standards as available;
- Address the impact of adverse childhood experiences through early and preventative interventions, working closely with partners using the Getting it Right for Every Child (GIRFEC) approach;
- Consider the findings of the National Child Protection Improvement Programme as these are developed and implement as appropriate;
- Consider the new inspection framework for children's services;
- Continue to keep an overview of the work of the Scottish Child Abuse Inquiry;
- Ensure safety, protection and positive outcomes for unaccompanied asylum seeking children and Syrian families, with a particular focus on support and integration;

- Have oversight of and support the Community Protection Steering Group in its responsibility to:
    - Build Community Capacity and Resilience
    - Protect and Support Vulnerable Members of the Community
    - Combat Terrorism and Serious Organised Crime
    - Develop the Renfrewshire Community Safety Partnership Hub and CCTV; and
- Work with the Scottish Government to implement the findings of the Independent review of Hate Crime.

6.3 The Community Protection Chief Officers Group will continue to seek to ensure that performance and practice are scrutinised at a strategic level, to identify what works well, to highlight any areas for improvement, and to consider where further opportunities for early intervention and prevention activity would achieve improved outcomes for local people.