Finance Committee

Fiscal Sustainability: Summary of evidence

1. At its meeting on 28 September 2011 the Committee considered what further inquiry work it wished to carry out and agreed, in the first instance, to conduct a series of round tables within the overarching theme of fiscal sustainability. The Committee agreed to hold sessions on—

- Demographic changes;¹
- Inequality and socio-economic deprivation;²
- Universal services;³
- Additional models of finance.⁴

2. The Committee would like to thank all those organisations and individuals who participated in these sessions. This paper provides a summary of the main issues which arose and is intended to inform both a debate in the Chamber and the Committee’s future work including its on-going and budget scrutiny.

Demographic Changes

3. In its annual report on fiscal sustainability the Office for Budget Responsibility (OBR) stated that—

“the public finances are likely to come under pressure over the longer term, primarily as a result of an ageing population.”⁵

4. A recent Scottish Government report stated that the population aged 65 and over—

“is estimated to increase by 21% between 2006 and 2016, and will be 62% bigger by 2031. For those aged 85 and over, the population will rise by 38% by 2016 and 144% by 2031”.

5. Similarly, a recent report by the International Monetary Fund⁶ on the financial crisis in 2008 stated that—

“In spite of the large fiscal cost of the crisis, the major threat to long-term fiscal solvency is still represented, at least in advanced countries, by unfavourable demographic trends.”

6. Consequently, the OBR states that policy makers and would-be policy makers should certainly think carefully about the long-term consequences of any policies they introduce or propose to introduce in the short-term.

**Life Expectancy**

7. There was reference to the over 85 age group and, in particular, the impact which the ‘non-healthy individuals’ will have in terms of increasing demand for resources. Professor Robert Wright stated—

“The life expectancy of people in that age group is about six years. Some estimates suggest that four years of that will be non-healthy life expectancy, which means that there will be a significant input from the state in terms of health or accommodation services. People who will be 85 20 years from now are 65 today, so we know the numbers. There is no real disagreement on the fact that we will see 150 per cent growth. I just cannot see how we are going to reduce the costs within that age group. That is the real challenge. Life expectancy in Scotland is rising, but the ratio of healthy life expectancy to non-healthy life expectancy is not changing much, so the increase in life expectancy is also increasing the potential costs. The real issue about how we accommodate the ageing population is in how we accommodate the upper end of the older population.”

**Data Collection**

8. A point which arose from the discussion was on the need to gather, share and use data in the most effective way. The Registrar General for Scotland made the point—

“One of the challenges that we are looking at is whether we can make better use of that data and share it more effectively than we have done up till now.”

9. He also stated that raw data is gathered by the National Records Office and the Information Services Division of NHS Scotland but that better evidence is needed. The point was made that the public sector collects a great deal of data for different purposes but the best use is not then made of it (there may data protection, legal or ethical considerations which impact on the ability to use data).

10. On a similar issue, the Committee’s Budget Adviser made the point—

“I have been involved in a Europe-wide project that looked at telecare interventions. We found that there are not only hundreds but probably thousands of little interventions that physicians have decided would be a good idea, but which are not taken forward. We do not know whether they work, because the evaluations have been poor. If we want to know what works, we must have a system that will enable us to evaluate the evidence coherently.”

11. The issue of data gathering, of what type, how it is evaluated, shared and used and for what purpose was also identified as a key issue during the

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consideration of the written evidence received in respect of the Committee’s consideration of preventative spend during the draft budget scrutiny.

**Emergency Admissions**
12. The Dr James McCormick of the Joseph Rowntree Foundation made the point about the costs of hospitalisations—

   “One unsustainable fault line that is built into our system is the fact that we spend about four times more on emergency admissions to hospital for the over-70s than on the entire free personal nursing care budget. That is an example of a system that is not resilient enough and defaults to emergency hospitalisation. We could do much more to increase resilience at the community level to avoid unnecessary hospitalisation and to speed up people returning home from hospital.”

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13. A related point about assessing and recognising the preventative value of a policy such as FPNC was made by Professor Charlie Jeffery who said—

   “we can get fixated on the headline costs of things such as free personal and nursing care without thinking of the money that we would have to expend if such care was not there.”

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**Impact on housing**
14. While the increase in population, and in particular an ageing population will have an increasing demand on the health services and other associated public services e.g. social work, points were made in evidence about the impact demographic changes will have on the housing stock, particularly around the number and type of properties and the quality of that stock. Paul Wheelhouse MSP made the point—

   “Are there any implications for housing and the balance of resources that we put into improving the quality of housing as opposed to building new houses? Because there is more rapid population growth in England, there is perhaps a need to build more housing units to accommodate more people, but in Scotland we have an historic problem of poor-quality housing that we need to address. If we do so, it might help to improve the health and quality of life of people who are already living in Scotland.”

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15. Dr McCormick made the point—

   “One trend relates to Paul Wheelhouse’s point about housing. In addition to the ageing issue, our society is becoming more marked by solo living—that is, people living in single-person households. That reflects relationship breakdown and all sorts of social trends, and it means that more of us than ever before will, in all likelihood, arrive into older age living alone. That has

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implications for the supply of housing stock and the need to get our act together on housing adaptations.”

16. The Registrar General for Scotland produced an estimate of the number of households in Scotland in May 2011 and will produce another in May 2012 which will give some indication of how the number of households is changing. It is continuing to increase in Scotland, but less quickly than elsewhere in the UK. In addition, the Scottish Government published in December 2011, Age, Home And Community: A Strategy For Housing For Scotland’s Older People: 2012 - 2021. This looks at the implications for housing and discusses what might be done in order to have the right type of housing stock over the coming years.

**Impact on labour market**

17. The point was made in evidence that focussing on the “economic dynamism” of younger immigrants is not the only answer when considering the impact which an ageing population might have on the labour market. Professor Charlie Jeffery stated—

> “Another is to release the talents and energies of the over-65s. Given changes in retirement legislation, we do not stop at 65. We can go on and on, and many people have the abilities and the will to do so. A question is whether our employers are yet fully willing to recognise that and to adjust patterns of employment to get the best economic benefit—for their firms and for the Scottish economy more generally—from older people.”

18. As an extension to this point, the Committee highlighted an impact which an increasing labour market from the over-65s could have on younger people seeking entry to the labour market—

> “With regard to the demographic profile, one thing that worries me is that if we say that people should keep working when they are older, they may take jobs that younger people could otherwise get. That would be fine if we had full employment, but in times of high unemployment, young people are finding it difficult to get into the labour market. I am a bit concerned about the pathway that we are currently on, as we may exclude the young from work by insisting that older people keep working for longer.”

19. Professor Robert Wright, in addition to these points, added—

> “My second point is about the fact that the labour supply among older people will increase a lot, which Charlie Jeffery mentioned. It is clear that people want to work into their 60s and even their 70s, which is fine, so the labour supply will go up in the older age groups. However, is there demand? No. Is it possible to generate demand that will translate that supply into jobs? That is

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the real challenge. I do not think that there is an easy answer to that. Not everyone can work for the Government. It is a tough issue.”

Inequality and Socio-Economic Deprivation

20. The Improvement Service in its submission to the Commission on the Future Delivery of Public Services (“Christie Commission”) stated that—

“the gap between the top 20% and the bottom 20% in Scotland is the widest in developed Europe with the bottom 20% at age 15 performing as if they have 5 years less schooling than the top 20% (i.e. as if they were 10 years old).”

21. It is, therefore, unsurprising that as NESTA have pointed out: “Scotland has one of the highest proportion of people not in education, employment or training between the ages of 16-19 years in the OECD. The proportion of 16-19 year old NEETs has remained static since 1996.” Levels of relative poverty (before housing costs) have also remained stubbornly high. Although there was a 3% drop from around 20% to 17 % between 1998/99 and 2004/5 there has been little change since. According to Scotland Performs there were 870,000 individuals living in relative poverty (before housing costs) in Scotland in 2009/10.

22. In its report, the Christie Commission noted that—

“The greatest challenge facing public services is to combat the negative outcomes for individuals and communities arising from deep-rooted inequalities. This challenge is not new but public policy has failed consistently to resolve it……Part of the problem has been a failure to prioritise preventative measures; a weakness which helps trap individuals and communities in a cycle of deprivation and low aspiration.”

Scale of inequalities in Scotland

23. The key issue made by witnesses was that those at the lowest level of deprivation tended to suffer from multiple risks and were focused in particular geographical areas. For example, the Improvement Service pointed out that “if we take the 20% of areas with the highest rate of emergency hospital admission for adults, these are also areas with high income deprivation, high levels of unemployment, low educational attainment, high crime rates, etc.” The IS explained that this means—

“people living in areas where 20%+ of the adult population are prescribed drugs for anxiety and depression; where in any year 3 in every 10 adults will be emergency admitted to hospital and where life expectancy and health life expectancy are more than ten years less than the Scottish average. It means people living in areas where the rate of crime is 4 times the average for Scotland and 8 times the average for the least deprived areas in Scotland.”

24. The Joseph Rowntree Foundation (JRF) made repeated references to the problem of “recurrent” poverty whereby individuals “cycle in and out of poverty.” They indicated that—

“Nearly a third of those leaving poverty fall back into poverty again within a year. Roughly one third of the “pool” of people in poverty over a six-year period are the same households moving in and out of poverty.”

25. The JRF also emphasised that—

“The issue of people moving repeatedly between work and unemployment is an endemic problem in the UK and has risen by 60 per cent since 2006, mostly as a result of the recession.”

Greater connection between economic recovery and prevention

26. Witnesses emphasised that there needed to be a greater focus on the connection between economic growth and preventative spend. As the IS pointed out—

“Part of the debate that has followed the work of Christie has been that, on the one hand, there is economic recovery and, on the other, there is prevention. I do not agree with that. On the basis of the evidence, I think that the most preventative thing that you can do for people is to ensure that they are employed.”

27. The Poverty Alliance agreed stating that “in our policy making we need to bring economic and social objectives much closer together than we do at present.”

Meaning of eradicating poverty

28. The Committee was keen to establish what was meant by “eradicating poverty”. In response, the Poverty Alliance indicated that—
“When we ask people who are experienced in dealing with poverty what they mean by ending poverty, they talk about people being able to participate in normal everyday life, to take part in the activities that we all expect to take part in and to live a dignified life. We need to keep in mind such words when we think about how we marry our economic objectives to our social objectives.”

29. While the JRF stated that—

“We are talking about the UK becoming the best in the OECD; that is what reducing or abolishing child poverty would mean. That means ensuring that whoever is poor is only temporarily poor and that the risks that are attached to being poor are not complex and cumulative. Having an income disadvantage should not mean that a person also has poor health and poor housing and that they live in a poor community. The aim is to have less bundling together of risks.”

Working within devolved powers

30. However, witnesses emphasised that the position was not intractable. The JRF pointed out that other OECD countries were managing to tackle inequalities, indicating that “Examples from comparable neighbour economies such as Denmark, the Netherlands and Finland show that even in remote, isolated and fragile economies, there is still a lot that we can do, despite globalisation, to close some of the gaps.” In respect of Scotland, the JRF went on to state that—

“Looking in retrospect at the decade of growth, in the relatively good years up to the eve of recession, even in the neighbourhoods in Scotland with the highest rates of out-of-work benefit claim, worklessness fell by about 20 per cent…”

31. Witnesses indicated there was action that could be taken within devolved powers. For example, the JRF stated that “..we should not forget that we have major powers in Scotland over adult skills.” They suggested that these powers should be examined and “ask ourselves how we can do much better in the next decade to ensure that our investment in adult skills goes much more to those at most risk in the long term. If we crack some of those skills progression and labour market progression issues, there is quite a lot that we can already do within our devolved powers.”

Targeted action

32. Witnesses emphasised that given the “clustering” of multiple deprivation, support needed to be directed to where it was most needed. For example, the IS indicated that the first round of SOAs [single outcome agreements] in particular were “very much aimed at the whole area that is being served by a council or

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They emphasised that “..it is only once you get down to a much more granular level that you begin to identify communities in which people are experiencing similar outcomes across the range.”

33. And in its paper the IS pointed out that—

“Strategic planning for the whole council area is fine as long as it is not solely about the whole council area. With disaggregated profiling, the institutional and resource capacity at whole area level may be necessary to enable targeting and an integrated approach at local community level.”

34. Witnesses agreed that a prerequisite to targeted action was the appropriate level of reliable data.

**Employment - role of the public sector**

35. The value of employment in reducing inequalities was a common theme. The IS pointed out that “If you look at all the data across every community in Scotland, you see that people in employment enjoy far better outcomes in terms of health, wellbeing, safety and so on than people who are not in employment.” They stated that “even if you are on a low income, it is better to be in employment than not to be in employment.”

36. Witnesses commented on the role of the public sector in supporting growth in employment, indicating that its role of employer was not always sufficiently emphasised. For example, the IS stated that “in the public sector, and particularly in local government, we tend to be focused on our services, which are what we think will have the beneficial impact. In reality, it is our employment capacity and not our services that might have the beneficial impact on people’s lives. Therefore, we should think much more about how important we are economically and how we use that power.”

37. While the Wise Group advised that—

“One public sector agency was included in the report about the top 10 employers that we gave to our board. We find it very difficult to get the different levels in the public sector to understand an employability strategy that focuses on the people in greatest need.”

38. The IS went on to suggest that the Committee might consider whether the public sector’s role as employer should be part of the effort to achieve outcomes, indicating that “much of that would be through procurement, because procurement

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is 30 per cent of total public expenditure in Scotland, and, in relation to its size, is second only to the wage bill in the public sector. How we use that capacity is critical to the beneficial impact that we can have.”

39. The Poverty Alliance pointed out that: “...spend on procurement in Scotland is significant. If we were able to use that spend more effectively for social objectives, we could make a significant impact on some of the inequalities in our labour market.”

Role of community planning partnerships
40. Witnesses were less optimistic regarding the role that the role community planning partnership could currently play in supporting job growth. For example, the IS accepted that there were a number of difficulties with the current system, pointing out that SOAs are “non-statutory documents that are generated by voluntary partnerships that carry no legal responsibilities.”

Private sector interventions
41. Witnesses pointed to the role that the private sector could play to support employment growth. For example, the Wise Group suggested that there should be support for individuals to set up businesses. “I am not necessarily talking about people becoming self-employed—many people find that a lonely life or do not have the skills for it—but about people setting up businesses in groups.”

42. While the Poverty Alliance suggested that—

“Our targeting therefore should not be on just places and people but sectors and the support that employers in those sectors need. Those sectors are dominated not by the public sector or large employers but predominantly by smaller employers.”

43. He indicated that the hospitality and retail sectors should be targeted as areas for job growth.

Creating sustainable employment
44. However, the Wise Group emphasised that it mattered little whether the employer was from the public or private sector. He pointed out that what mattered was “whether the job is sustainable, whether a person can get above the minimum wage at the entry level—the living wage has been helpful in trying to promote that—and whether a person’s skills can be increased when they are in work.”

45. While the JRF emphasised that there must be “an almost obsessive focus” on employability. He stated that—

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“We need to shift from concentrating on how we get people to the starting line, which basically means throwing them at the market until they stick—towards much more of a focus on how employers behave.”

46. In its written evidence the Poverty Alliance agreed with this point, stating that—

“Enhancing the employability of those who have been long term unemployed or similarly disadvantaged is vital to ensure that they have the capacity to take advantage of opportunities in the labour market.”

47. However, the Poverty Alliance emphasised that “any skills and learning strategy designed to boost employability throughout life must be accompanied by an economic and jobs strategy that promotes inclusive, as well as sustainable, growth.”

48. While the Joseph Rowntree Foundation stated that “entering work cannot provide a sustainable route out of poverty if job security, low pay and lack of progression are not also addressed.”

49. In this context, the Wise Group emphasised the need to provide appropriate support to employers. It stated that “There are two customers when people work with long-term unemployed people: the long-term unemployed person and the employer. If we cannot get the right person to meet the employer’s needs, the employer will not be happy and the person will not stay in the job. Therefore, we must work with employers.”

50. The Wise Group also highlighted the need to work with the families of the newly-employed person stating that—

“There is an increasing awareness that taking an individual out of a family and getting them a job is not the answer if that family has a number of issues. There must be more consideration of issues in families and support for them.”

51. Witnesses also emphasised the need to evaluate of methods to improve employability that worked, as well as dissemination of those methods and programmes proven to work. As the JRF pointed out—

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50 Poverty Alliance. Written submission. Available at: www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/Papers_20120118.pdf

51 Poverty Alliance. Written submission. Available at: www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/Papers_20120118.pdf

52 Joseph Rowntree Foundation. Written submission. Available at: www.scottish.parliament.uk/S4_FinanceCommittee/Meeting%20Papers/Papers_20120118.pdf


“We have evidence of high-impact and high-quality evaluation standards, but it is not obvious in Scotland that we use that gold-standard evidence well enough.”

Universal Services

52. Underpinning the Committee’s consideration of the short and long term provision and funding of universal services (concessionary travel; free personal and nursing care; prescription charges; eye examinations; free school meals; and tuition fees), was the work done in other areas. In particular—

- Report of the Independent Budget Review
- Paper by the Committee’s budget adviser, Meeting the Challenge of Budget Cuts in Scotland: Can Universalism Survive?
- Session 3 Finance Committee report on the 2011-12 draft budget
- This Committee’s report of its scrutiny of the spending review 2011 and draft budget 2012-13 (this highlighted the Auditor General for Scotland’s estimated cost of £870 million to pay for universal services and the calls (e.g. from the RSE, West Lothian Council, Centre for Public Policy for Regions) for a debate on the future provision and funding of such universal services
- Christie Commission report
- Audit Scotland’s report, Scotland’s public finances: Addressing the challenges

Evaluation of universal services

53. Audit Scotland has estimated a combined annual (and rising) cost for free personal and nursing care, concessionary travel, free eye tests and free prescriptions of £870 million. The Auditor General for Scotland referred to the future costs of the continued provision of universal services in view of projected demographic changes. He argues for the need to identify, in any policy area, the impact of demographic change and to design policies using some key principles:

- Who will benefit?
- The ability to pay principle;
- Opportunity cost principle;
- Intergenerational transfer.

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54. The opportunity cost principle means that if we do something what can we no longer afford to do while intergenerational transfer refers to passing the costs of policies onto future generations.

**Data Collection**

55. The issue of data collection was raised in both written and oral evidence and, again, the point was made about the need for better, more informed and reliable data to project what the future costs of universal services might be. A practical example of this lack of evidence was given by Dr Andrew Walker on reversing free eye tests and prescription charge abolition—

> “I tried to find some evidence for you on which we could base that decision, but the evidence is very slim indeed. The Welsh carried out one study when they abolished prescription charges to see whether prescriptions went up by a great amount. The answer is that they did, but they are going up everywhere all the time, and it is hard to separate out any prescription charge effect from anything else. There are a whole bunch of things going on.”

56. The problem with cost benefit analysis in that regard is that there really is a lack of evidence on which to base it. We do not know whether prescription charges and eye test charges deter people. We suspect that if there was a flat rate for everybody, it would look a bit like the poll tax, which would probably be a bad thing. That was not what prescription charges were: all sorts of exemptions existed, and it was perhaps only people like us in this room who paid the charges—and perhaps were able to pay them.”

57. The need for regular and thorough evaluation of the commitments to provide universal services was identified as necessary. The Committee’s Budget Adviser stated—

> “It is incredibly difficult to do the costing across silos. There may well be beneficial impacts on the health service from free personal care, but we do not really know and we do not have the mechanism to figure that out. The other reason why the costing is difficult, ex ante, is that free personal and nursing care was a policy that was ostensibly about money but which has set in train a process of change in the system. The balance of care has moved much more towards care at home than towards residential care. There was much more emphasis on making the care-at-home system efficient; it was just going to be a more difficult thing to do at the outset. The committee needs to give serious thought to that, especially as the big thing about universal services is that they are open-ended commitments. I think that they should be revisited every five years to see whether they remain affordable.”

58. In response to this, Professor Jeremy Peat said—

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“I am taken with David Bell’s suggestion of revisiting those open-ended commitments over, perhaps, five years. It might be easier if one said that the benefits would be in place until year X and would continue beyond that date only if the Parliament took a positive decision to that effect. That would force a proper examination.”

59. And—

“You should also examine a set of options, so that the Parliament—in the light of the overall public finance situation and of its view on priorities, equity, fairness and the policy issues—is able to make a decision about whether the continuation of a particular universal benefit is justified or whether there are options for other uses of the funds concerned that might, on balance, be preferable, given the Parliament’s view of what is good for Scotland more generally.”

60. Related to this was recognition of the judgement to be made in assessing the value of providing such universal services and of their ‘preventative’ nature in maintaining a healthy quality of life, particularly for the elderly population. The point was made by Elaine Murray MSP about “the sort of society in which we want to live”—

“Either we can pay a significant level of taxation and receive universal benefits—in which case, the contract that people have with the state is that they pay their taxes to receive what they need—or we can pay less taxation and have benefits that are targeted at people who need them, while others have to make their own provision. The benefit for them is that they have a choice about the provision that they want to make.”

**Means Testing**

61. An extension to this issue was around the provision and entitlement of free universal services or whether more ‘criteria’ should be attached to each existing services. This might be through changing the admissibility rules, for example raising the age of entitlement for a free bus pass, or changing the hours in which the pass can be used. Or, it might be through introducing some form of ‘means testing’ whereby an assessment is made on an individual’s entitlement to receive a free concessionary travel pass (as an example). The point was made in evidence that this brought its own costs. Professor Jeremy Peat said—

“My final point is about looking at where to go when thinking about reducing universality. One consideration is the benefits and to whom they apply. Another is the costs of administrating alternative schemes. In some cases, it would be incredibly expensive to unpick what one has and find an alternative means of judging who gets what. It would be unwelcome to save £50 million of benefits but spend £40 million on the administration of that. Look at the costs of administration.”

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62. This point was also addressed in the paper by the Committee’s Budget Adviser on fiscal sustainability—

“At a practical level, any spending saved by the imposition of means testing has to be set against the costs of administering means testing. This can be both expensive and intrusive. Attempting to fine tune systems to maximise taxpayer benefit may be self-defeating due to increasing administrative costs. Means testing also carries risks associated with both fraud and low take-up. Individuals may fraudulently claim benefits by misrepresenting their income and/or wealth. The benefit authorities then have to set up systems to combat fraud. Others who are eligible may not be reached by the system and miss out as a result. Low take-up is thought to be a particular problem amongst benefits for older people, but the evidence suggests that most of those who do not claim would not have received a high level of benefit.”

Additional Models of Finance

63. The fourth and final round table on fiscal sustainability addressed the issue of additional models of finance which the Committee had initially considered during evidence with Graham Allen MP on his second report to the UK Government on early intervention. He argues for the need to look at additional funding models to invest in early years intervention and suggests that—

“given the public expenditure situation, we need to be much more creative in finding additional (not substitute) non-government money.”

Payment by Results (PbR)

64. PricewaterhouseCoopers (PWC) submitted a research paper which asks whether government should pay for results? The paper states that the UK Government “has embarked on a programme of pilot programmes to implement Payment by Results (PbR) across various social service areas.” These include programmes within the Department for Works and Pensions, Department of Health and the Ministry of Justice. The aim is to facilitate a greater focus on outcomes and to provide incentives for delivering results through sharing in the savings from reducing demand in the system.

65. The PWC research identifies a number of challenges for government in developing PbRs:

- How should social impacts be measured?
- Do the maths work in terms of “cashable” savings with sufficient returns to attract investors and providers?

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• How to ensure that economic fluidity and market changes that occur during the course of a PbR contract do not leave either party financially penalised?
• How do we bring together Government, providers and funders?

Social Impact Bonds

66. NESTA suggested in a recent submission to the Committee that: “developing a model for sustainable disinvestment and reinvestment ought to be a priority for the Scottish Government” and identify Social Impact Bonds as one such model.

67. SIBs are described by RAND Europe as a form of PBR which:

- **For government** aim to remove the financial risk that government pays for services that prove to be ineffective at addressing social needs and improving outcomes;
- **For investors** offer a “mission aligned” investment opportunity, as well as potential return on investment;
- **For service providers** provide upfront funding for the delivery of services;
- **For the public and service users** pay for services that fill a gap in existing provision.  

68. Scotland’s Futures Forum held a seminar on SIBs in November 2010. The Forum states that: “A SIB is a contract with the public sector in which it agrees to pay for improved social outcomes. On the back of this contract, investment is raised from socially-motivated investors and this investment is used to fund a range of interventions to improve a set of mutually agreed social outcomes. The financial returns that investors receive are dependent on the degree to which those outcomes are achieved.”

69. APEX Scotland and Addaction state in their submission that SIBs provide “an opportunity to introduce innovation in service delivery, to improve robustness about individual outcomes and wider social impacts, and to help secure a scale of investment more adequately meeting the levels of need.” The Big Lottery Fund has been working with Social Finance and the Ministry of Justice in looking at how SIBs “can solve, key entrenched policy issues, such as reoffending rates.”

70. The Budget Adviser states in his briefing paper for the committee on fiscal sustainability that: “There is a growing consensus that past mechanisms for investment in deprived communities have had limited success.” This has resulted in looking at different methods of intervention including PBRs and SIBs. However, the Budget Adviser points out that this approach is still in its infancy and the process can be extremely complex as demonstrated by the Peterborough SIB.

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Preventative Spending

71. Social Finance suggest in their submission that PbRs may be particularly suited to preventative spending programmes given the necessary risk involved. They argue that: “The social impact bond or social investment is helpful for preventative spending because it brings finance into an area that may be unproven, with methods that may be innovative. The finance is linked specifically to positive social impacts and social outcomes, and it is rewarded only if those social outcomes are achieved.”

72. A further advantage is that it allows governments to transfer the risk that poor implementation results in interventions failing to achieve expected outcomes. It is investors that take the risk.

Measurability

73. As noted above a significant issue in developing PbRs is measurability. RAND Europe pointed out that within the Peterborough model evaluation was built in from the start. The Ministry of Justice also commissioned an independent assessor to gather data and carry out the evaluation of whether reoffending has reduced. However, in future the evaluation could be carried out by the Office for National Statistics given that they already collect such data. Inspiring Scotland stated that: “The measurement must be robust and built in at the outset, and it must be carried out by a third party.” However, APEX Scotland point out that Audit Scotland has recently published two reports in which it suggested that: “systems for gathering data on outcomes are weak.” PWC pointed out that HM Treasury is currently developing guidance on the measurement of social impacts.

Scalability

74. PWC raised the issue of scalability: “if we have a local social enterprise that is delivering extremely good results, the question becomes how we can scale that up while ensuring that the quality of the service is the same.” PWC point out that the Peterborough SIB is relatively small and, therefore, not especially attractive to commercial investors given the need for due diligence etc. They argue that: “if the approach continues to be done on a pilot basis, it will take years before anything substantive happens.” However, if it is demonstrated that the pilots deliver results then it may be that governments will wish to invest in the model. The approach does not necessarily depend on raising finance from the private sector.

75. Inspiring Scotland suggest that scalability can be achieved through various means. For example, through “having a wider portfolio of projects that contribute to a social aim.” However, they also point out that: “We have a very short-term and fragmented approach to funding some of the most challenging social issues that we face in Scotland.”
76. Social Finance suggested that: “there is some merit in having a number of pilots, initially, to provide choice and testing.”77 Social Enterprise Scotland argued that upscaling is essential but without losing local accountability.

**Tax Treatment**

77. Inspiring Scotland raised the issue of the tax treatment of social investment vehicles such as SIBs. They point out that SIBs fall between two tax regimes. They neither gain treatment as an investment or as philanthropy. Inspiring Scotland suggest that SIBs and other forms of social investment should “have an appropriate tax treatment.”78

**The Scottish Government’s View**

78. In its report on the Spending Review and Draft Budget 2012-13 the Committee asked the Scottish Government “what consideration it has given, or will give, to the use of forms of social finance such as social impact bonds?”79 The Scottish Government stated in its response that: “The use of Social Impact Bonds is under consideration…in a number of policy areas, including early years.”80

79. The Committee also asked “whether it considers such forms of finance would assist the public sector in the delivery of the preventative spend approach?”81

80. The Scottish Government stated in its response that it—

“Is aware of the pilots being run in prisons in England, and is observing how they develop. This Government does not favour expanding the involvement of the private sector in providing services to reduce reoffending or in speculative investment designed to return profits in this area. However, the idea of linking funding to the achievement of specific outcomes is one we are exploring.”82

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