Preventative spend

Introduction: the challenge of preventative spending

The Scottish Parliament’s Finance Committee has undertaken a large amount of work in recent years on the issue of preventative spending, and there is undoubtedly cross-party support for a preventative approach to public sector activity. For the purposes of the Finance Committee inquiry, preventative spending was defined as being public spending over the longer term that aims to prevent rather than deal with negative social outcomes. This is quite a broad definition, and an argument was made recently by Gavin Brown MSP (9 May 2012) in the Scottish Parliament that

“we need a tighter definition of preventative spend because just about every agency or department that has given evidence to any parliamentary committee claims that what it does is preventative spend and that by investing more money into that department and its policy area money is saved in the longer run. I have yet to meet a single department or agency that will stand up and admit that what it does is not really preventative spend. If, as a Parliament and as a country, we are to focus our resources properly, we must be quite robust about what we consider and do not consider to be preventative spend.”

The above quote highlights a key challenge that exist in implementing “preventative” measures fully across all areas of the Scottish Budget. If preventative spending has the desired impact of reducing the need to react to problems, then there will be less of a need to spend resources on areas like Health and Criminal Justice. However, there can be problems of actually disinvesting from areas of spend, and overcoming a certain degree of path dependency and vested interests. These issues were recognised in the Finance Committee’s report into the Scottish Government’s Spending Review 2011 and Draft Budget 2012-13 which cited one of the main barriers to achieving the Scottish Government’s stated aim of a “decisive shift” to preventative spending being “deciding where disinvestment should occur, ie what current services are no longer required in order to achieve the resource shift towards preventative services”.

The Finance Committee agreed that to overcome challenges of where disinvestment should occur will require “national leadership” with the Scottish Government providing “greater direction and guidance….on how the preventative spending agenda should be taken forward.”
Assessing costs and benefits of preventative interventions

A challenge that has been identified in terms of assessing the outcomes of preventative measures is that it can be difficult attributing outcomes to the particular intervention, and assessing the benefits requires follow-up research over many years. For example, in the area of early years intervention, younger children receive many different formal and informal services simultaneously, making it extremely difficult to attribute which services have contributed to a particular outcome. It is also very difficult to tell what would have happened to an individual in the absence of a particular intervention – for example, a particular outcome may have been achieved regardless of a particular intervention. This makes developing a robust “evidence base” for policy difficult.

The economic benefits of investment in the early years have most famously been advanced by Nobel prize winning economist, James Heckman, who has argued that returns from investments made in early years greatly outweigh those made in any stage of education (school or tertiary) and that an “optimal investment strategy is to invest less in the old and more in the young”.

Heckman uses figure 1 (below) to show the rate of return on money invested in education between the ages of 3 and 22.

**Figure 1: Rates of return to human capital investment**

Source: Heckman and Masterov, 2004. [Skills policy for Scotland](#)

This graph neatly articulates the arguments made by advocates of early years investment. The horizontal axis represents age and the vertical axis represents the rate of return to investment assuming the same investment is made at each age. All things being held constant, the rate of return on a
pound of investment made while a person is young is higher than the rate of return to the same pound made at a later age.

Following the logic of the Heckman study, attempting to reverse problems in education becomes more expensive the later they are attempted. According to another Heckman study (Heckman 2006) successful early interventions are self-perpetuating and he argues for early investment in children, particularly disadvantaged children, on economic efficiency grounds.

"Early interventions have much higher returns than other later interventions such as reduced pupil teacher ratios, pubic job training, convict rehabilitation programmes, tuition subsidy (at university) or expenditure on police."

Much of the literature on “prevention” focuses on early years interventions, which contribute to cross-cutting beneficial outcomes across a range of policy areas, from health (reduced obesity, better health) to justice (less crime) to economic development (greater employment prospects, less welfare expenditure). However, there are other examples of preventative policies which are not purely focused on early years. For example, the smoking ban and minimum prices are preventative policy actions designed to tackle the ill-health effects of smoking and the anti-social and ill-health effects of alcohol. In the field of justice, the violence reduction unit aims to tackle the impact of violence at a societal level.

**Scottish Government action**

The Scottish Government’s 2011 Spending Review proposed a “decisive shift to preventative spending” in it’s allocation of £500m to “preventative” initiatives, as well as “a step change in the way in which we fund and deliver public services”. Although the Finance Committee questioned whether all of the £500m was new money, or substitute funding for existing projects, the Committee welcomed the shift in Government emphasis and the importance attached to prevention across Government portfolios.

**Ross Burnside**

**SPICe Research**