



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### FINANCE COMMITTEE

Tuesday 30 November 2010

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**Tuesday 30 November 2010**

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**FINANCE COMMITTEE**  
**28<sup>th</sup> Meeting 2010, Session 3**

**CONVENER**

Andrew Welsh (Angus) (SNP)

**DEPUTY CONVENER**

Tom McCabe (Hamilton South) (Lab)

**COMMITTEE MEMBERS**

\*Derek Brownlee (South of Scotland) (Con)  
\*Malcolm Chisholm (Edinburgh North and Leith) (Lab)  
\*Linda Fabiani (Central Scotland) (SNP)  
\*Joe FitzPatrick (Dundee West) (SNP)  
\*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)  
\*David Whitton (Strathkelvin and Bearsden) (Lab)

**COMMITTEE SUBSTITUTES**

Gavin Brown (Lothians) (Con)  
Lewis Macdonald (Aberdeen Central) (Lab)  
Stewart Maxwell (West of Scotland) (SNP)  
Liam McArthur (Orkney) (LD)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

Sir John Arbuthnott (Royal Society of Edinburgh)  
Jo Armstrong (Centre for Public Policy for Regions)  
Professor Brian Ashcroft (University of Strathclyde)  
Graeme Blackett (Reform Scotland)  
Jim Stephen (Scottish Government Children, Young People and Social Care Directorate)  
John Swinney (Cabinet Secretary for Finance and Sustainable Growth)  
Peter Wood (Optimal Economics)

**CLERK TO THE COMMITTEE**

James Johnston

**LOCATION**

Committee Room 1



## Scottish Parliament

### Finance Committee

*Tuesday 30 November 2010*

[Malcolm Chisholm *opened the meeting at 14:01*]

### Temporary Convener

**Malcolm Chisholm (Edinburgh North and Leith) (Lab):** Good afternoon and welcome to the 28<sup>th</sup> meeting of the Finance Committee in 2010 in the third session of the Scottish Parliament. We have apologies from the convener and deputy convener, who cannot be here due to the adverse weather. Standing orders require that, as the oldest member of the committee, I convene the meeting for the purpose of choosing a temporary convener. I seek nominations for the post.

**Joe FitzPatrick (Dundee West) (SNP):** I nominate Linda Fabiani.

**Malcolm Chisholm:** One nomination has been received. I ask the committee to agree that Linda Fabiani be chosen as temporary convener of the Finance Committee. Are we agreed?

**Members** *indicated agreement.*

## Decision on Taking Business in Private

14:02

**The Temporary Convener (Linda Fabiani):** Hello. I am not the oldest member of the committee—or even the second oldest.

The first item is to consider whether to take item 4, which is consideration of the committee's work programme, in private. I propose that we do so. Are we agreed?

**Members** *indicated agreement.*

## Preventative Spending Inquiry

14:02

**The Temporary Convener:** Item 2 is the final evidence-taking session in our inquiry into preventative spending. Unfortunately, the Minister for Children and Early Years, Adam Ingram, has sent his apologies due to the bad weather. I welcome John Swinney, the Cabinet Secretary for Finance and Sustainable Growth, and his officials: Kay Barton from the Government's health improvement and health inequalities policy branch and Jim Stephen from its early education and childcare branch. Thank you for coming. I invite the cabinet secretary to make a brief opening statement.

**The Cabinet Secretary for Finance and Sustainable Growth (John Swinney):** Thank you, convener. My sympathies go to Mr Chisholm on the indignity of having to go through the process that he has just had to go through.

I welcome the opportunity to contribute to this inquiry into the important area of preventative expenditure. Preventative action is central to our approach to government. It goes beyond some of the more obvious areas of activity. One example of such action is protecting against the social and economic costs of unemployment through our economic recovery plan. At this time of financial constraint, it is important that we aim to avoid unnecessary costs in all areas through timely intervention. The committee has rightly focused its attention on areas such as health, early years, housing and justice. In the absence of my colleague, Adam Ingram, who concentrates on many aspects of the early years, I will do my level best to address the committee's considerations. Jim Stephen will provide me with assistance in that respect.

In our submission to the inquiry, the Scottish Government gave examples of a number of different policy areas where the Government has developed the evidence and analytical base that are used to underpin our actions. I will not cover all of them in my remarks; instead, I will focus on what I believe to be the main issue.

The need for early intervention has been recognised for some time as a critical factor. The committee has heard about the evidence that shows that the early years are crucial in shaping a child's development and life chances. That research underpinned the development of the early years framework and other, interconnected, frameworks that are aimed at tackling health inequalities and poverty.

Many of the people who have provided evidence to the committee were involved in the

development of a new and dynamic approach to collaborative policy making that has been led by the Scottish Government and the Convention of Scottish Local Authorities. There are many examples of achievements at national level, such as the single outcome agreements, the family-nurse partnership and the getting it right for every child programme, but the key to success on our early years and early intervention priorities is what happens at local level. Adam Ingram has been tireless in his efforts to lead the agenda by spreading the message and pressing for progress at all levels of local governance in Scotland, particularly councils and community planning partnerships.

We will continue to give priority to early years and early intervention. We propose to introduce a new early years and early intervention fund, which will be aimed at the voluntary sector, with initial start-up funding of £5 million.

Action on early years is crucial but it is not the whole story; we are not just waiting for the next generation to solve our problems. We have in place a range of preventative spend measures, which were protected in the budget settlement as far as we were able to protect them. The committee has heard evidence on the cost of treating illnesses that are associated with drug or alcohol misuse, smoking and obesity. The issue is linked to action to reduce Scotland's long-standing health inequalities—Kay Barton will assist me on some of those areas.

Such preventative measures will benefit Scotland and its economy in many ways, through improved productivity and reduced welfare and treatment costs. We also need to focus on preventative services that offer the opportunity for intervention at different life stages, such as parenting support, education and learning support, employability services, drug and alcohol services and community policing.

I have talked about areas in which there is preventative effort. It is clear that such areas do not work in isolation. We and our partners need to work together to take a more holistic approach. We know that the savings from prevention do not always arise in the area in which the preventative action was taken. That must not act as a barrier to preventative action. The Government wants to ensure that we overcome such perceived barriers. An example in that regard is our approach to the establishment of a change fund, which totals £70 million. The fund will be held by the health service, but it will be designed to support the redesign of services to help shift the balance of care away from the acute sector and towards primary and community care.

Some people argue that the only way to ensure that there is preventative spend is to ring fence

funds for that purpose, but I argue that that is not the way to get the best decisions and produce the best results for the people of Scotland. Decision makers need to recognise the value of preventative spend and give it appropriate priority. Even when the full benefits of spend are not realised for many years, more immediate benefits and impacts can often be recognised, which indicate that preventative spend is on track to deliver.

In all areas in which we undertake preventative spending, we must ensure that we are prepared to challenge the effectiveness of spending. If we determine that spending is not effective, we must redeploy resources.

There are many challenges in the agenda, but the whole concept of preventative intervention lies at the heart of the Government's policy interventions and will be central to the work that is undertaken by the commission on public services, which Campbell Christie will lead, on designing the model for excellent sustainable services for our communities in a challenging financial environment. The shifting of effort to preventative services is a key part of the commission's remit, which acknowledges the need to address the causes as well as the symptoms of social problems.

**The Temporary Convener:** Thank you, cabinet secretary.

**Malcolm Chisholm:** I will focus on the early years, which it is fair to say have been the most prominent area of preventative spend in our inquiry. Many witnesses, including Detective Chief Superintendent Carnochan, emphasised the importance of political consensus around the early years. I think that there is a basis for such consensus; I certainly acknowledge the work that has been done and the continuity with what went on in the past.

I think that the strongest evidence the committee has heard was on the importance of the first three years—that applies to the health area that Kay Barton deals with as well as to the broader early years agenda, which Jim Stephen deals with. The early years framework covers a longer period. At a time when finances are under pressure, should we focus in particular on the first three years?

**John Swinney:** Many of our approaches to preventative spending build on foundations that we inherited from our predecessors. The agenda that the Government is pursuing did not start in 2007; much of the thinking about and formulation of the rationale on a number of questions is part of an evidence base that has been built up over some time. We now have a clear picture of the scale and detail of the major social and economic

problems that would benefit from early intervention—not just in relation to the zero-to-three age group but across the age spectrum. It is now important that we ensure that all the design of interventions is appropriate and effective to deliver against those problems.

It is important that within the early years framework—especially for the zero-to-three age group—we design interventions that will have the maximum impact on the individuals concerned. The process is helped by the type of evidence base that has already been constructed within Government—the understanding that some interventions in relation to parenting support and the health care support that is given to expectant mothers and to women shortly after birth are aspects of a procedural approach to the care environment that provides the youngest of our citizens with a degree of confidence. Over a number of years, it has become clear to us that we need to have the sharpest possible policy focus in that area and to ensure that services meet the needs and expectations of everyone concerned.

The fact that we are operating within a performance framework that focuses all public bodies on the achievement of a certain range of outcomes will help us through the challenging financial times that we face. It is crucial that we achieve those outcomes, which give all players in the public sector clarity about what the Government is trying to achieve as a consequence of the way in which public expenditure is being deployed. That should provide adequate focus to enable us to design the particular interventions that will support the group to which you referred in your question.

**Malcolm Chisholm:** When it comes to the allocation of resources, do you see the nought-to-three age group in the same way as the three-to-eight age group, which accounts for the rest of the years in the framework? Have you repositioned or could you reposition the framework slightly so that it is more skewed resource-wise towards the first three years? Do you see a case for doing so? I suggest that, on the basis of the evidence, there may be an argument for that.

**John Swinney:** I do not have in front of me the spending balance between the zero-to-three age group and the three-to-eight age group. I imagine that it would be difficult to put together those data.

The most important consideration is to focus on outcomes. That strikes me as the way in which to navigate our way through the many choices that exist around how programmes could be designed or how services could be delivered. The focus on outcomes should guide us in all our decisions. The data that we have and monitor should give us the confidence that we are making an impact on achieving those outcomes. If they do not, we

should look to other data that do. The approach that I have outlined addresses the issue that you have raised and gets to the heart of whether we make a difference to individuals' lives by the way in which we spend public money or whether public money could be spent more effectively than is currently the case.

14:15

**Malcolm Chisholm:** My other question is to get your reaction to the report from Scotland's Commissioner for Children and Young People. His main point is that he feels that there should perhaps be more national direction or leadership. When I read the report, it seemed to me that that was an inevitable result of the relationship that exists between central Government and local government—you do not really have a directive relationship. That may be partly what he is referring to. If there is to be a national priority and a national focus on the early years, which may even intensify in the next three years, to what extent can that be delivered through the existing relationship with local government? Is that a problem that the children's commissioner has highlighted, or do you just reject the thrust of his report?

**John Swinney:** There is a very real question to be addressed. Mr Chisholm is absolutely right that we do not have a directive relationship with local government. The contrast is with the health service, with which Mr Chisholm will be very familiar, in which there is a very directive approach based on national policy running a national organisation. Local authorities and national health service boards have a fundamentally different character; local authorities are elected bodies that have their own mandate and governance arrangements.

A fairly substantial question lies at the heart of the point that has been raised. We have tried to address the situation by seeking agreement with local government about the focus of our respective work. I am confident that, as a consequence of the arrangements that we have arrived at since 2007, local authorities have been co-authors of many of the interventions that we have made. It would be inconceivable for us to develop a social policy framework that would affect children from birth to three without the full participation of our local authority colleagues. Indeed, the Government's three major social policy frameworks have all been formulated through that joint working with local government. The purpose of all that is to get us all on the same wavelength so that Government can pursue much of its agenda in willing partnership with local authorities. Local authorities have agreed to the performance framework that lies at the heart of the Government's interventions—the

national priorities and the national outcomes—and that focus is replicated at the local level to support those national outcomes.

So, in answer to the children's commissioner's point that there is a vulnerability, although we do not have that directive relationship—I cannot sit here and say that the Government has directed 32 local authorities to do this and it will happen—we have made strenuous efforts, through the creation of a policy framework, to get local authorities and national Government working collaboratively and co-operatively in the same direction.

**The Temporary Convener:** I am interested in what you say about the outcomes. The overwhelming evidence that we have received shows that it is outcomes that are important—in fact, some of the witnesses have been almost evangelical about the outcomes that there could be. There is recognition that there is a long-term strategy in early years intervention, but some of the witnesses have made it clear that there could be some fairly short-term outcomes that would be measurable. Does the Government have an idea of when some of those outcomes could be produced and looked at to see the effects?

**John Swinney:** It is absolutely clear that the Government considers the focus on outcomes to be essential in policy terms. Three and a half years into the current Administration, I am more confident that that message has percolated throughout the public sector. I see much more evidence of it in some of the decision making by public bodies—not just bodies that ministers direct, but local authorities—and a focus on the achievement of outcomes. As Mr Chisholm said, the same approach is pretty broadly shared across the political spectrum.

The second point is about when we see the fruits of our work. The answer really depends on the area that we are talking about. In some of the early years work, the fruits will take perhaps five years to come to the surface in the achievement of some of the more significant outcomes. In some of the health areas, however, the outcomes can be pretty swift. If people change their alcohol consumption or smoking intake—I do not know whether people take up smoking cessation or they just cease smoking—or if they follow some of the work that has been done on exercise and weight loss, the fruits appear immediately. There will be long-term benefits too, but outcomes can clearly be achieved in the short term. However, the outcomes from early years work will be slightly longer term.

**Joe FitzPatrick:** As this inquiry has gone on, we have heard some pretty robust evidence that there needs to be a radical shift towards preventative spending, and I guess that we have wished that we had held the inquiry a few years



ago so that we were not coming up with evidence just as there is an unprecedented spending squeeze. That said, the evidence has existed for some years and some progress has been made in the past. How can we ensure that we get a radical shift this time? How can we ensure that our report does not just gather dust but we get the change that the evidence suggests needs to be made?

**John Swinney:** I think that, ironically, the financial context provides some of the impetus. Let us look at some of the long-term questions of demography. If we assume that nothing will change, that the pattern of demography will continue and that people will live longer but conditions will become more demanding to manage and the pressures on the acute sector will increase, we conclude that the financial pressures on public services will become significant—more significant even than they are today. The impetus to say to public sector organisations that they have to recast the way in which they deliver services and deploy interventions will become ever more essential. In that context, the difficult financial situation can help to focus minds on reshaping services to meet the challenges.

The second part of the answer is about using outcomes to navigate our way through the questions. In a sense, what matters is what we achieve and what is delivered. If we deliver better outcomes as a consequence of the way in which spending is deployed, we can obviously remove some of the pressure on public services over time.

There is a good opportunity in the current environment to use the financial constraints to press for change in the way in which we deliver public services, and the way to do that is by encouraging organisations not to protect the way in which public services are delivered but to protect, and then improve, the outcomes that can be achieved—we clearly need to improve the outcomes. That is the focus that the Government will give to public services in this period.

**Joe FitzPatrick:** I want to take the point about outcomes a stage further. Some of the evidence that we have received suggests that preventative spend in one area will sometimes have a positive outcome in a different area. How do we ensure that people do not protect their own little empires and that we get the gain in other areas?

**John Swinney:** Part of what the Government has tried to do is intensify the activity at community planning partnership level. There are 32 community planning partnerships in Scotland, to reflect local authority boundaries, and a variety of players will sit around that table, but they will predominantly be the local authority, the health service, the police, the fire and rescue service, the enterprise agencies and various others. The focus of community planning partnerships is on the

formulation of single outcome agreements, so a focus on outcomes and what they can contribute towards the achievement of the Government's national outcomes runs through all their discussions. We therefore hope that that creates a climate that addresses Mr FitzPatrick's point about money being spent by one budget holder in one area perhaps having a benefit to another budget holder. Does that incentivise spend or put off spend? We would like to think that the community planning partnerships are essentially a model whereby we can build up collaborative activity at local level, because it is not just about how one budget holder spends their budget. For example, on an issue such as alcohol abuse, how the health service spends its money is one thing, how a local authority spends its money on the issue is another thing and how the police deploys its resources on the issue is another. If those organisations' approaches are aligned, we have a much better chance of reducing the alcohol harm caused to the individuals who consume the alcohol and to those who do not consume it but may be the inadvertent victims of its consumption.

The community planning partnerships essentially encourage the process of reflecting on the best ways to deploy resources and spending. For example, some research that has been undertaken has led the Cabinet Secretary for Education and Lifelong Learning to write to the chief executives, the directors of children's services, the directors of education, the directors of social work and chief executives of NHS boards about the financial impact of early years interventions, essentially to promote that body of thinking and to encourage all the players to look at the research base, because there is strong evidence for the beneficial effects of early intervention, and to encourage financial choices to be exercised in that fashion.

**Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD):** Good afternoon, cabinet secretary. I will ask questions along the lines of those asked by Joe FitzPatrick on the collaborative working side. The committee has received quite a bit of evidence about that and I hear your comments. Detective Chief Superintendent Carnochan told us that

"There is still a deal of territorialism between agencies, including the voluntary agencies, that is more corrosive and pernicious than that between the gangs in the east end of Glasgow".—[*Official Report, Finance Committee*, 26 October 2010; c 2561-62.]

He is approaching the matter, if I may say so, from a perspective that is slightly different from your generous view. Is he right?

**John Swinney:** I certainly think that there is still work to be done on the issue.

**Jeremy Purvis:** With regard to that work, when representatives from Glasgow City Council were in front of the committee I asked the head of education and the head of social work what the long-term outcomes are for the vulnerable children in that city, but they could not tell me. On that basis, I understood that they do not have long-term outcomes that they are aiming for with regard to reducing the number of vulnerable children. Does the Government have a view on what the long-term outcomes should be for reducing the number of vulnerable children in Scotland?

**John Swinney:** I am surprised by the comments by the representatives you heard from, because I would have thought that the objectives and the desired outcomes were crystal clear from the Government's national performance framework and the national outcomes, which focus on ensuring that every child has the best start in life. I could perhaps understand it being remarked that we do not have a numeric target for the vulnerable children we might have in one, two or five years' time, but I would have thought that the policy framework and the policy intention, supporting outcomes that are clearly expressed in the national performance framework, of trying to secure the best start in life for every child would have given all the clarity that any public servant would require.

14:30

**Jeremy Purvis:** Is there a case for having a numeric target for that? Very interesting research was published a fortnight ago that certainly gives a lot of helpful numbers on the cost benefit of tackling the issue. For example, £131 million a year in the medium term, if we allow for the additional cost of severe cases, is a significant figure. Should the Government have a target for reducing the number of children in that category by, say, the end of this decade?

**John Swinney:** There may well be a place for that.

**Jeremy Purvis:** In your budget choices for the coming year, was there any resource transfer to the area of early intervention?

**John Swinney:** That is a rather difficult question to answer in the context of an approach to a local government settlement that has essentially been around the achievement of the national outcomes, which are implicit within the arrangements that we have in place between the Government and local authorities for joint working. The concept of resource transfer suggests that we take one block of money from here and give it to there, whereas our approach to local government funding is essentially to create as much flexibility as possible within the total sum of money available

to local government to ensure that it can contribute as much as possible towards the achievement of the national outcomes, which are clearly expressed within the Government's policy framework. That is the approach that is taken most directly to deliver that.

**Jeremy Purvis:** The reason why I ask is that you went beyond that in your budget statement and established a number of areas where you made a conditional offer to local authorities such that you would hold back a percentage of funding if local authorities did not accept your conditions, which included maintaining police numbers at their current level. The Government created a new mechanism this year in which I am interested. How did the Government determine the areas to which the new structure would apply? Were any early intervention measures considered as part of that determination?

**John Swinney:** First, the Government did not create a new mechanism in this budget settlement; the Government simply continued a mechanism under which it proposed to retain a certain proportion of the local government total settlement to afford certain priorities, which was a hallmark of the last spending review settlement on the council tax freeze. That has simply been extended this time round, so no new mechanism has been created. Secondly, Mr Purvis is correct that a number of specific policy interventions were set out in relation to one part of the agreement with local government. However, in addition to that, there is an acceptance—this is a key point in this whole explanation—in the local government settlement that the Scottish Government and COSLA, or COSLA's political leaders, agree that local government will continue to support the three social policy frameworks, of which the early years framework is one.

There are a number of specific asks on police numbers, the council tax freeze and a variety of other matters, but there are also some generic propositions that structure local authorities' approach to deploying public expenditure. That is channelled through the three principal policy frameworks of early years, equally well and achieving our potential. The local authorities are asked to provide their consent to all those arrangements, which includes those three major policy frameworks.

**Jeremy Purvis:** What is the mechanism for determining whether local authorities are delivering on the early years framework commitments, or do they simply have to say that they are doing it?

**John Swinney:** That is done through the way in which we monitor the national outcomes and it is a central feature of the single outcome agreements that are formulated locally.

It is also crucial that we do not simply compartmentalise the early years framework as being about local authorities. There are substantial issues in early years intervention that relate to the health service and the criminal justice service's support for vulnerable families. It is not only an issue for local authorities.

**Jeremy Purvis:** The budget has been offered. What happens if, when officials in the Government examine a single outcome agreement retrospectively as part of the review at the end of the year, they find that the local authority has not achieved the early years component? Does the Government claw some money back?

**The Temporary Convener:** I remind the committee that we have an evidence-taking session on the budget on Monday at our meeting in Angus. That seemed to be more a general question on the budget than one that was relevant to early years.

**John Swinney:** I am happy to answer it. The key point that I will make on single outcome agreements is that they are not retrospective but prospective; they are about things that local authorities have agreed to do in the future, although of course their performance will be assessed. The leadership on formulating the agreements tends to rest with local authorities because they are the lead organisations in community planning partnerships, but they bring together the input of a range of other organisations. The prospective single outcome agreement sets out the priorities.

I will address Mr Purvis's question about what happens if the outcomes do not materialise with the answer that I gave Malcolm Chisholm earlier. Local authorities are independent, self-governing bodies that are elected by their local communities. In all that it does, the Government tries to encourage the greatest amount of joint policy making and aligned activity between public sector organisations. We put a lot of effort into that. Adam Ingram spends a huge amount of his time visiting community planning partnerships and local authorities and evangelising on exactly the point that Malcolm Chisholm and Jeremy Purvis raised with me to encourage the strongest possible participation on early years.

If it does not all materialise, a question arises as a consequence for all of us as policy makers about the best way of delivering policy. The Government takes the view that local authorities are democratically elected organisations and we should respect their right and ability to implement the priorities.

**Derek Brownlee (South of Scotland) (Con):** The Government's official submission alludes to the fact that there is a balance between reactive

spending and spending that is more focused on prevention. We will never get to a situation in which all spending is focused on prevention, nor have we had a situation in which all spending has been reactive. Is the current balance at a high level—a strategic level—right, or is there still scope to skew it more towards preventative spending?

**John Swinney:** The balance is inappropriate. It is skewed too much towards reactive rather than preventative spending.

**Derek Brownlee:** Within the Government's submission, there is a view that tends to move that analysis down to a local level, which is consistent with some aspects of the way in which the Government is structured. However, you have said that the balance is not what you would like it to be, and I do not think that anyone would argue that we should be spending more on reacting to problems than on trying to solve them. How can the Government take an informed view of whether it has made a meaningful impact on that balance, either in the time you have been in office so far or in future, if you go on longer? What mechanisms enable the Government to take a strategic view on where the balance of spending is and where the opportunity is to go further?

**John Swinney:** For me, the whole issue turns on the national performance framework, which we set out in 2007. At that stage, we decided to create a policy framework that looked to the longer term and accepted that there was no way that we could solve some of Scotland's deep social ills within a four-year term of office. Issues such as smoking and alcohol abuse have been kicking around for many years. I contend that the intensity of activity on tackling those questions and shifting the balance has moved more swiftly in the past 10 years than it did in the previous 10 years. There is no doubt about that, and the public's mood and attitude, along with our policy focus, are helping us with that.

The national outcomes are the way of judging whether we are making sufficient progress. As I say, some of the challenges that we face will not be addressed within a four-year parliamentary session or term of office.

**Derek Brownlee:** That is a plausible explanation for breaking through the short-termism of the political cycle and taking the longer-term approach that is necessary. Surely, however, if we go by the national outcomes—assuming that they are retained in the long term—the focus will be on attaining those outcomes and, unless they are preventative by nature, how we get there does not really matter, does it?

**John Swinney:** We have talked extensively today about young people. One of our national

outcomes is to make sure that we deliver the best start in life for every child. Pretty compelling evidence is available that that is not being achieved. Of course, we have many social problems and we all know about them through the communities that we represent. The challenge is to intervene to change the focus, so that we achieve better outcomes and, as a consequence, create better conditions and opportunities for the young people in our society.

**Derek Brownlee:** That presupposes that the main or only way to achieve those outcomes is to make greater use of preventative spending, which seems to be a bit counterintuitive.

**John Swinney:** It will require us to make greater use of preventative spending, but not exclusive use. That is the distinction that I would make.

**Derek Brownlee:** That takes me on to another issue, which is a difficult problem to confront. Because of the long-term nature of the timeframes in which initiatives will succeed, fail or deliver the same as previous ones, it is difficult to draw together the evidence and the policy in the timeframes in which politics usually work. In the timeframe of your Government, have there been examples of policies that were previously thought to be helpful in shifting towards preventative spending but which it became evident were not achieving the likely success rates, leading to corrective action being taken?

14:45

**John Swinney:** There is not a policy area that immediately strikes me. Well, perhaps drugs might be the one example on which we have taken a different course and focused much more on addressing the circumstances of drug users. Rather than supporting the management of a drugs crisis, it is about tackling its root causes. That is one area that I would highlight.

One of the dangers in policy making is that we are tempted by short-term initiatives to try to sort a problem. A lot of the analysis of policy over the past 20 years suggests that that does not work. A collection of pilot initiatives does not equal the pursuance of long-term outcomes-driven policy making that is determined to tackle our social ills. All the policy evidence analysis supports that procedural way of tackling issues, rather than just trying to put together different new ideas to tackle particular circumstances.

**Derek Brownlee:** I can see where the logic of that takes us. Part of my reason for raising the issue is that, although there has been a significant consensus on some of the issues during the inquiry and there is no doubting the good intentions, separating good policies from the good

intentions is a trickier prospect. One newspaper today reported that an initiative by a UK Cabinet sub-committee to try to frame longer-term savings rather than short-term budget savings is running into trouble. The article states:

"Although the Treasury is officially open-minded, there is a degree of scepticism about what one senior figure calls 'spending departments bringing us spend-to-save measures as an excuse to get more money'".

Is the Scottish Government as sceptical as the Treasury is, or does it take a different view?

**John Swinney:** Probably the less I say about Her Majesty's Treasury, the better. If Mr Brownlee is asking whether I believe that there are justifiable spend-to-save measures, the answer is yes, of course I do. There might not be agreement among politicians in Parliament on all essential characteristics of alcohol policy, but there is certainly enough agreement that we have to do something about Scotland's alcohol situation. Why? If any of you has the misfortune to have to go to an accident and emergency unit on a Friday night because of a circumstance that has nothing to do with drink, it is guaranteed that you will collide with the after-effects of drink there, even if you had nothing to do with it all evening. That says to me that if we take interventions that reduce the number of cases that populate our hospitals and A and E units with alcohol-related conditions on a Friday or Saturday night, or any other night of the week, that would be a good thing, and that would be a spend-to-save measure.

**Derek Brownlee:** The general principle is that it is easy to come up with initiatives and make the plausible case that they will save money in the longer term. However, even if you were to take a very optimistic view of your electoral prospects, some of these proposals will not bear fruit until you are long out of office. You must be somewhat sceptical about being presented with such proposals. Surely a higher standard of proof is required when someone presents a spend-to-save initiative than when someone simply comes forward and says, "Well, we got this budget last year. This is a worthwhile programme and we would like to maintain it."

**John Swinney:** In a sense, the judgment that I apply is to look at some of the wider considerations that I cannot avoid. I refer to questions such as demography and the challenges of longer life expectancy including the increased requirement for health care support that that longevity places on our public services. I am not familiar with the news article to which you refer, Mr Brownlee, but, if a Cabinet sub-committee was looking at a long-term measure to try to tackle some of these questions, I am sure that it would be seized with exactly the same data as I am. Unless we interrupt some of the ways in

which we make demands on public expenditure, we will end up having to take some very difficult decisions in future years, particularly if we do not make the interventions at this stage to try to change our direction of travel.

**David Whitton (Strathkelvin and Bearsden)**

**(Lab):** I am interested in your views on the 1,000 extra police as part of your deal with COSLA in return for the council tax freeze. When Detective Chief Superintendent John Carnochan gave evidence to the committee, he was given the choice between 1,000 extra health visitors or 1,000 extra policemen. He chose 1,000 extra health visitors, because he said that that would give long-term benefit in terms of preventative spend. Do you have any thoughts on that—particularly given your recent experience of health visitors?

**John Swinney:** I have certainly seen enough of them.

I totally understand Mr Carnochan's point. Essentially, it sounds like a trade-off between early intervention and policing, but my view is that having 1,000 extra police officers is early intervention, too. I would like to believe that a more visible police presence would lead to people thinking twice about whether to behave in a fashion that causes distress. I know that Mr Whitton has wrestled with some of these questions in his constituency.

I understand Mr Carnochan's point and I am sympathetic to the idea. In looking through material before I came to the meeting, I was struck by the point—it is attributed to Iain Duncan Smith, I think—that a young person's educational attainment is founded by the age of eight. I understand and accept the logic, but I am not sure that Mr Carnochan is comparing apples with apples.

**David Whitton:** I take your point; it can be argued that both are preventative spend. I think that Mr Carnochan's argument was that, if we had the 1,000 extra health visitors, we might not need so many police officers in 15 years' time. Mr Brownlee referred to that.

**John Swinney:** That may well be the case. As I tried to say to Mr Brownlee, taking steps now means that we will not be treating the same problems in 15 years' time.

Some of the symptoms that we are treating today are the same as those our predecessors were treating 10, 20 or 30 years ago. However, some of the symptoms are not quite the same, and I would like to think that some of the decisions that we take in the current context will lead to fewer symptoms in 10, 20 or 30 years' time. The purpose of the outcomes framework is surely to try to achieve that.

**David Whitton:** You said that you are not entirely convinced that a collection of pilot studies is the right way to go forward, yet the Government has introduced a number of integrated resource initiatives across Scotland. The directors of social work and the Royal College of Nursing say that progress is slow on those. Will you give us an update on whether you agree with that and say whether you might change your mind about pilot studies if you do not think that we should have as many of them?

**John Swinney:** I was not giving an edict against all pilot initiatives. I was just cautioning about where we should use them.

I do not agree with the RCN on work on the integrated resource framework, which I think is actually making more progress. It is a technical area of health board and local authority interaction that has to be undertaken. It is what the Government's change fund in the budget proposals is all about; it is designed to try to put real muscle behind shifting the balance of care, and to—

**David Whitton:** Is it to speed it up?

**John Swinney:** It is not necessarily to speed it up. It is to give it greater potential and put greater practical resource behind it.

Mr Whitton will recall the budget session that we had in Kirkintilloch in his constituency. A gentleman from the elderly forum went through a number of statistics about how much it costs to keep an elderly person in an acute hospital, a local hospital and a care home, and in their own home. The numbers are dramatically different. To me, that was a powerful illustration from a member of the public of why what we are doing with the change fund is so important. The more people are supported in their home rather than in an acute hospital, the more it helps us with the long-term management of public resources.

The work on the integrated resource framework is going well, but it is something that needs to be constantly reinforced, which is what the change fund will help to do.

**David Whitton:** Strathkelvin and Bearsden are always glad to welcome the cabinet secretary to offer him policy direction. You are right—it was a good session.

I will touch on something else that will, no doubt, come up a lot during our budget discussions in the coming weeks. It concerns universal provision, particularly in relation to the early years. We have had a lot of evidence from other countries on the issue, and the explanation that we have had is that there are better outcomes in the Nordic countries and the Netherlands, where there is universal provision, than in the UK and America, where

provision tends to be targeted. Does the Government have a view on whether it will roll out more early years provision on a more universal basis rather than on a targeted basis?

**John Swinney:** Are there particular elements that Mr Whitton has in mind?

**David Whitton:** Not especially. I guess that one would be family-nurse partnerships. There have been pilot studies of that approach. Are we going to roll it out? I suppose the other one that I was quite taken with is also a family-nurse partnership, but it specifically targets teenage mothers. The girl is allocated a health visitor, who has only a small number to deal with, rather than a huge number, as soon as she is discovered to be pregnant—you do not wait until the child is born; you do it before that. It struck me that those things in particular are quite effective.

15:00

**John Swinney:** There is a question about whether such provision needs to be universal or more extensively available. I can clearly see the merits of its being more extensively available.

The question of universality is obviously substantial. In some areas of provision, services are provided on a universal basis because the cost of disentangling who should be entitled to them from who should not can almost be greater than the cost of the provision itself. There is a fine line to be trod.

For example, I would describe free eye tests as an early intervention measure, and I think that they were probably described as such by the previous Administration when they were introduced. The cost of an eye test in an optician's will be significantly lower than the cost of an eye test appointment with a clinician in an acute hospital. By getting people to go for a regular eye test every few years to check up on the condition of their eyes, it is likely that problems are spotted that avoid the health service incurring the significant costs that would be incurred were those problems not spotted for four, six or eight years.

At our recent party conference, I had a five-minute session with some people from Optometry Scotland, during which my pupils were examined using a piece of equipment. Just by looking at the detail of that image, they were able to go through four or five processes that enabled them to tell me right away whether my eyes needed further examination for condition A, B, C, D or E—forgive me for not having the detail to hand. That struck me as an excellent, easily accessible example of preventive intervention. That process could have taken place at a stall in a shopping centre. A five-minute examination is enough to give people a diagnosis and to allow them to find out whether

they have any latent problems that they might not otherwise detect for some time. That example shows how we need to be more creative when we look at how we deliver public service.

**David Whitton:** I have a final question, which I would have asked Mr Ingram. As he is not here, Mr Stephen might be able to help Mr Swinney with the answer.

For a couple of years, I have pursued a campaign for free nursery education to be available to three-year-olds one month after their third birthday. I understand that that has been rolled out across Scotland and that all 32 local authorities have been told that they can make such provision if they want to. What progress has there been with that? I am not sure whether that is widely done.

**Jim Stephen (Scottish Government Children, Young People and Social Care Directorate):** You are right. Free at three was part of the framework for education deal with COSLA. We took it up with COSLA and the Association of Directors of Education in Scotland, but it is fair to say that progress has not been as rapid or as complete as we would have wished. I think that about eight or nine councils offer free provision or variations of it. Some councils offer free nursery education if it is provided in a local authority setting, but not if it is provided in a third sector or a private sector setting. It is a bit of a mixed bag all round. We need to reflect on where that stands, given the new budget offer that is with councils.

We reckon that such provision is available in about eight or nine council areas. At any one time, there are about 2,500 under-threes in the pre-school sector in Scotland, many of whom will be from vulnerable households. That is the best account that I can give you at the moment.

**The Temporary Convener:** I have a couple of quick questions, which I suppose are to do with the £70 million change fund and what has been said about the institutional barriers to the public sector working cross-sectorally. Can the change fund be used by all the public bodies as a model for the way forward on preventative spending?

**John Swinney:** The whole purpose of the change fund is to realise some of the ambition that has come out of the joint work that the health service and local government have undertaken, in which there is a recognition that there is a saving to be made from preventive activity—to put it crudely, such activity reduces acute demands and strengthens community provision. The change fund is designed to support that journey, and the model might well apply to other policies. To me and to the Government, health and social care interaction is a key area in which an opportunity

exists to make more progress by working in that fashion.

**The Temporary Convener:** My final point is that many witnesses for this inquiry and the inquiry into the Public Services Reform (Scotland) Bill expressed the strong view that some important, big issues could not be tackled in one, two or even three four-year terms of a Government of a particular hue, as has been said. What is the cabinet secretary's view on the idea that some matters are so important to our society—whether they are preventative spending in the early years or other activities—that they should go beyond political divides and proceed by consensus until certain outcomes are achieved?

**John Swinney:** Compelling evidence of that exists. The Administration has continued our predecessors' direction of travel in several areas. We did not come into office and say, "That was what they did on smoking, but we'll do something else—we'll do the opposite," because tackling some issues is too important for that.

When formulating the national performance framework and the national outcomes, we thought about how to put in place arrangements that would allow long-term policy making to be undertaken not just by this Administration in building on our predecessors' work, but by the Administration that takes office in 2011, which can build on the work that the current group of ministers has undertaken.

**The Temporary Convener:** No one else has questions. Does the cabinet secretary wish to make closing remarks? No—I think that he is perfectly happy with what has been achieved. We look forward to seeing him on Monday.

There will be a short suspension to allow the next panel of witnesses—two of whom have managed to arrive just in time—to take their seats.

15:07

*Meeting suspended.*

15:10

*On resuming—*

## **Scotland's Spending Plans and Draft Budget 2011-12**

**The Temporary Convener:** Item 3 is evidence on the Scottish Government's spending plans and draft budget for 2011-12. It gives me great pleasure to welcome to the committee some old friends; I was going to say some old faces, but I do not mean that. They are Graeme Blackett, a trustee of Reform Scotland; Peter Wood, a director of Optimal Economics; Sir John Arbuthnott from the Royal Society of Edinburgh; Jo Armstrong from the Centre for Public Policy for Regions; and Professor Brian Ashcroft, policy director of the Fraser of Allander institute.

There are five of you, so I will not ask all of you to make opening statements; I suspect that that could take some time. I will start by asking a general question. The Government's budget document sets out its fundamental strategic priorities of supporting economic growth, protecting front-line services and establishing

"a competitive advantage through the opportunities offered by taking action on climate change".

Are those the right priorities for the Scottish budget?

**Professor Brian Ashcroft (University of Strathclyde):** As an economist, I would not presume to tell the Government what its priorities should be. I am more prepared to comment on whether the budget is moving towards those priorities. There is consensus on the need to promote growth and social justice. The Government has a difficult hand to play, given that it is faced with significant capital expenditure cuts that are front-loaded to the first year of the comprehensive spending review period; as all of us know, capital expenditure is an important ingredient of growth.

My main reservation is one that I also apply to the UK as a whole and concerns the decision to ring fence a large proportion of expenditure. Protecting health may be politically attractive but, from the point of view of economic growth, it is unfortunate that it makes the cuts' effect on the rest of the budget that much greater. It also sets perverse incentives for the health sector. Fundamentally, efficiencies should be driven through across the system, albeit that we are in a difficult period.

**Peter Wood (Optimal Economics):** I agree with Professor Ashcroft about the decision to protect the health budget, which was made at the UK level in the first instance, was translated to the

Scottish budget through the Barnett consequential and was then adopted in the Scottish budget. However popular the decision may be—I am sure that many people are in favour of it—it does not suggest that the first priority in the budget is promoting economic growth.

There are a number of other ways in which the Government's hands have been tied by commitments to which it is wedded. They include the decision to maintain concessionary bus fares for older people—which is an open-ended commitment, as the Government cannot entirely control spending on it—and the decision to maintain free personal care for the elderly. Essentially, it seems that social programmes have been protected—perhaps for good reason—and that lower priority has been given to investment in areas that might foster longer-term economic growth, especially higher and further education but also transport infrastructure. I do not think that any decision by the Government would change economic growth next year—I am talking about looking ahead. Among the Government's purposes, the protection of services has been given priority over the promotion of growth.

15:15

**Graeme Blackett (Reform Scotland):** There is also the question whether it is possible within the budget arrangements to pursue the objectives that the convener set out. I think that all members of the committee are familiar with Reform Scotland's work on fiscal powers. The relevance of that to this debate is that the budget-setting process did not take account of what Scotland's economy or public services might need but focused on historic levels in the Barnett formula. We are looking only at half of the equation.

**Sir John Arbuthnott (Royal Society of Edinburgh):** A big problem with the budget statement is that it is for one year. We will probably talk about that.

I had the pleasure of witnessing the committee's discussion on preventative spending. The cabinet secretary was emphatic about the need to bring together the benefit of spend on health and social care. For one reason or another, the health budget has been maintained and has slightly increased—we can argue about that. Significant reductions have occurred elsewhere, at the very interface where health must interact with the provision of social care. Therefore, the way in which the budget has been constructed will not make it any easier to achieve the objective that the cabinet secretary set out.

**Jo Armstrong (Centre for Public Policy for Regions):** I want to focus on the capital side of the budget. It is clear from the budget documents that

there is a willingness to try to develop a profit-capping, non-profit-distributing funding model. That is to be applauded because, if we are not careful, we will have a serious potential problem on infrastructure spending, given that the capital cuts are significant and that there is pent-up demand in the project pipeline, which I think that the Scottish Futures Trust said a couple of years ago was in the order of £40 billion. If we do not have a mechanism for turning revenue spend into capital spend, that demand will not be met. The proposed approach represents a good outcome from the budget.

To make the new approach work, a fiscal rule is emerging from the budget documents, which might be worthy of discussion. Is 1 per cent of the resource departmental expenditure limit budget sufficient to spend on infrastructure? Are the current projects in the pipeline the best use of scarce funds? How do we prioritise spending? There is an indication in the budget that prioritisation is going on. What are the priorities and who is involved in deciding them? Are projects targeting economic growth as opposed to redistribution? None of that is clear in the budget documents. Scotland's longer-term economic growth will be greatly enhanced if we get our infrastructure in place, and the NPD model is a good way of helping to do that, but there are many questions about how the approach will work.

**The Temporary Convener:** Thank you. I throw open the discussion.

**Derek Brownlee:** Let us consider the draft budget purely through the prism of economic growth—I realise that other objectives are set out in the budget. What are the panel members' impressions on the extent to which the kind of decisions that can be made within the current parameters of the budget could meaningfully influence economic growth in the financial year that we are discussing, or lay the foundations for economic growth in future years? Mr Wood has perhaps already answered my question.

Secondly, on an issue that Jo Armstrong fleshed out, an emerging theme seems to be that capital spending is better for economic growth than revenue spending, which strikes me as an oversimplification, to say the least. What capital programmes or type of capital spending is capable of skewing the budget towards a greater focus on growth? What type of capital spending—albeit desirable for other reasons—is less important for economic growth and might not be sustained in the year that we are considering? That is quite a general question, but I am interested in your comments on those two themes.

**Professor Ashcroft:** It may seem a pedantic point, but it is important to distinguish between stabilisation issues and growth issues. In essence,



when we talk about growth, we are talking about trying to build the supply capacity of the economy. Clearly, there needs to be a demand for that capacity, and a small regional economy needs an international dimension to that—it needs to sell goods and services effectively abroad. Fundamentally, the drivers of growth depend on improving supply capacity, and it seems to me that, in the long term, the Parliament has many powers here, largely through the enterprise, energy and tourism budget—through Scottish Development International and Scottish Enterprise spend—which is very important to that objective. There are issues around the need to protect that spending in the long term.

In the short term, while we are faced with this fiscal consolidation at the same time as a weak economic recovery, we are especially concerned to protect demand in the economy where possible. Clearly, when spending is being cut back, demand is being taken out of the economy. One option is to give primacy to protecting demand in the economy by spending in areas where the recipients of that spending will go out and spend it rather than hoard it. There is also an equity dimension to that. By and large, if money is spent on the relatively less well-off, they will go out and spend it, whereas if it is spent on the relatively rich, they will tend to save it. Against that background, it is also important to spend on investment, because investment has both a short-term demand effect—it stimulates the construction industry, for example—and a long-term supply capacity-building effect.

Of course, Peter Wood is right that the contribution of the public sector to demand in the economy, although it is there, is relatively small compared with the size of the economy. The public sector has contributed about 11 per cent to the growth of the Scottish economy over the past 10 years or so, and that figure is roughly comparable to the figure for the United Kingdom—it is not as though the public sector is driving growth here but not elsewhere. Nonetheless, taking out that demand at a time of weak economic recovery will risk stymieing the recovery. We forecast that it will not stop the recovery—that we will not have a double dip—but we think that it could be a close call. We were, therefore, pleased that the Office for Budget Responsibility seemed to take a similar view yesterday.

**Peter Wood:** I will build on Professor Ashcroft's point, with which I agree. We keep being told—quite rightly—that we face a reduction in public spending that is unprecedented in peace time. That is because over the past few years there has been a growth in public spending that has been unprecedented in peace time. There is no doubt that, with our relatively large public sector, Scotland has received some benefit from the

growth in the public sector. Plainly, we are not going to have that for a good few years, so the question is what we can do to ensure that the non-governmental sector is capable of expanding to provide employment, incomes and all those other good things.

I understand the realpolitik, but the budget does not seem very forward looking in terms of saying how we should reshape public spending over the next five to 10 years to enable us to create the conditions for growth. Mr Brownlee asked what we should spend on that will promote growth and what will not. That question is too big for me to answer right now; it is a matter that we need to consider closely. What returns will what types of investment have in promoting the growth of the economy? My slight prejudice is that, if we invest in higher education, research and development, the science base and certain aspects of our physical infrastructure, that will foster growth. Nevertheless, the issue requires more than an off-the-cuff response.

**Graeme Blackett:** I will build on Mr Wood's answer. On the conditions for growth and the type of investment that is required, we must be careful not to focus too much on physical capital investment—which is often the focus—and remember that building up other types of capital, human capital in particular, is also important. Part of that work involves further education, higher education and research.

That point leads me to the question of what we do in the longer term, which is where the agenda for public sector reform comes into the equation. Part of the answer relates to the discussion in the previous evidence session on investing to save and determining what money should be spent on in future. The other element that needs consideration now—the process that should start it—is the way in which services are delivered. It is a question of not just what we spend money on, but how services are delivered.

**Sir John Arbuthnott:** I am not an economist, so I will just pick up two aspects of what has already been said.

First, we talk a lot about the fact that Scotland has a very high expenditure on public services. We have invested heavily in them, but my work with local authorities, which was extensive, reveals the extent to which that spend is intimately linked to private sector activity. If we are to seek a more private sector-driven economic situation, we have to take account of the fact that there will have to be some reshaping of how the economy develops. I would like to hear whether colleagues agree that that is an issue. It may not be, but in the big local authorities that I have talked to there is a large amount of interaction with the private sector, and a

lot of the economic benefit that we have had in recent years has come from that.

The second point is different and picks up on the comment about higher education, which we might come back to. I recently had the opportunity to address the Universities UK conference in England, which is the main annual conference for universities. A paper was given by an excellent speaker from the Organisation for Economic Co-operation and Development, which has looked carefully at all aspects of higher education, including progression from school, the uptake of places and what happens to graduates after they graduate. Interestingly, for instance, about 20 to 25 per cent of graduates do not earn high salaries. For one reason or another, they opt to go into work with lower levels of income because that is what they want to do, they do something completely different, or they disappear from the scene.

If we look critically at the end of the issue—the gross domestic product benefit relative to a country's investment in higher education—we see that there is a clear link between benefit and investment. I am concerned that, in the UK as a whole, we are taking a strange approach to the future of higher education. We do not yet know the future system for the funding of higher education in Scotland, and our tinkering with the system could have long-term effects.

**Jo Armstrong:** I talked earlier about using capital as a way of developing longer-term economic growth, but I take the point that it is not just about physical infrastructure and capital spend revenue support, which has been mentioned before. I alluded to the idea of prioritisation—looking for the maximum benefits from the minimum input—and that fits with what John Arbuthnott has just said about how we allocate our funding for best use.

I assume that the Christie commission will start to unpick some of that issue and ask what we should be doing with the public sector and when it is best to use public funds rather than private or third sector money. However, that requires a sophisticated debate, a lot of analysis and a lot of time, and I am not sure how the Christie commission will do it. For me, it is sitting out on the sidelines a little.

The other thing that concerns me for the longer term is what is not said, but is implicit in the budget: the short-term mechanisms to make it balance that have longer-term implications. I am thinking about the non-domestic rate increasing at 3 per cent real, which you cannot do year on year; the pay freeze, which one assumes that you cannot do year on year; the council tax freeze—ditto—the fact that we are delaying spending on new information technology systems in the Crown

Office; the fact that we are delaying the maintenance of major infrastructure, such as roads projects, across the public sector; and the fact that, to make the budget balance, we are looking for an additional 3 per cent efficiency savings. All those mechanisms on the supply side create problems. Add to that the additional demographic demand, which we know about, and the budget beyond 2011-12 looks that bit more difficult again. If we are talking about whether we are allocating our resources efficiently and effectively for longer-term economic growth, we ought to be thinking about those short-term mechanisms, too.

15:30

**David Whitton:** Ms Armstrong, do you think that it would have been more helpful if, instead of giving us just a one-year budget, the Cabinet Secretary for Finance and Sustainable Growth had followed it up with indicative spends for departments up to 2015, given that he knows how much money he has?

**Jo Armstrong:** I think that Scotland knows what money it has. The issue about the one-year budget is a political one and therefore, as an economist, I do not want to get into it. It is what was done in March at UK level. Yes, it would be nice to have a longer-term budget and yes, those who want to plan clearly want certainty in their budget lines—there is no doubt about that—but politics is clearly a part of this budget, too.

**David Whitton:** Given the economic point that you are making, however, it would obviously be much more helpful to have more than a one-year budget. You have spoken about the council tax freeze, the pay freeze and the way that capital moneys are being allocated. Surely it would be more useful for the country, and for the target of economic growth, if each department knew how much money it would have to spend.

**Jo Armstrong:** Everybody wants certainty in their budgets. If you could have a budget for three or four years, that would be much more helpful, but I think that lots of people are planning on the basis of an expected continuing downturn. We know in any case that, globally, the budget is reducing.

**The Temporary Convener:** Before I bring in Mr FitzPatrick on what I presume is the same point, I should make the panel aware that members of the Finance Committee received a letter today from the cabinet secretary saying that this very issue will be discussed at Cabinet this afternoon and he will write again to the committee later this week. Mr FitzPatrick, did you want in on this point?

**Joe FitzPatrick:** On the point about certainty, I wonder whether the idea that departments will

have certainty is helpful when the Christie commission will take what we are all hoping will be a radical look at public services and how they are delivered. Would saying that health will have the certainty of this budget and that police force A will have the certainty of that budget not be a false premise, given that we are about to look radically at the make-up of public services?

**Professor Ashcroft:** Could I respond to that?

**The Temporary Convener:** I think that Sir John beat you to it, Professor.

**Sir John Arbuthnott:** I will respond to that point briefly—removing the political dimension of the discussion that we are having. Since the end of 2008 it has been clear to everyone that there will be a major financial challenge. For various reasons, which are partly political, both in the UK generally and in Scotland, things have unfolded less quickly than I expected.

I am harking back slightly, but this is a significant experience. I spent almost a year with the public services in west central Scotland. They account for about a third of local authority spend, and they knew that this was coming—they knew that the train was coming down the track.

We need certainty about the financial challenge, but it is also terribly important that we have a direction of travel. That might mean that certain departments will benefit or will not benefit in that period. It is very difficult to plan for a demographic change of the kind that we are facing, which we talked about for an hour or an hour and a half before this meeting, if you do not have a fairly clear direction of travel that says, “Roughly speaking, in five years’ time that’s where Scotland wants to be and that has budget implications.” We are now at a point where this budget does not really help us with that longer-term issue.

**The Temporary Convener:** Thank you, Sir John. I am keen to move on because those were additional points to an earlier question.

**Malcolm Chisholm:** I am interested in the general views that have been put forward on the economy. I suppose that the reason why the economy does not have greater prominence in the budget is, first—to state the obvious—the opportunity cost of that. Secondly, as we all know, the fruits of economic growth do not come towards our budget, except very weakly. As the Scotland Bill is published today, I would welcome any thoughts on that. If you do not want to comment on that, that is fair enough.

The more immediate issue for us is that we have a budget for one year, so we will have to look carefully at possible shifts of spending. Clearly, those shifts will not be massive, so I suppose that this is a similar question to one that some of you

have already touched on. The CPPR submission says:

“The impact on the Scottish economy from this budget is unclear.”

We could point to any of the measures, even in health spending—of which some of you were critical. Presumably, spending in that area helps to maintain employment in a large section of the workforce. I realise that it is difficult to say, but what one or two changes could we make to the budget to improve it, from the point of view of our fragile economy?

**Graeme Blackett:** I will answer your second question by going back to your first question about the powers, because I think that that is important. No one will be surprised that this is a Reform Scotland view. In our view, the reason why public sector reform did not start earlier—and therefore why the benefits are not kicking in now—is that the incentive was not really there for Governments of any hue to pursue such reform—to do so did not benefit the budget.

I make a similar point about fiscal policies and, particularly, tax levels. The changes do not have an impact on the budget. Today’s announcement—it has probably happened while we have been in this room—will need to make that change. There will need to be a mechanism to allow the consequences of the tax policy to feed back into the Scottish budget.

**Professor Ashcroft:** On the first part of the question, we have had a comprehensive spending review from the UK Government, which sets the framework for three to four years ahead, to 2014-15. We have a spending envelope for Scotland, which gives us a broad sense of where the resource DEL and the capital DEL are going. That is slightly different from what happened in March at UK level, when the UK Government postponed the CSR. I think that we would all have welcomed an earlier CSR. Maybe that was political, too. However, there is a sense that, although we have the broad picture—the broad spending envelope—and we know where it is going over the next three or four years, we are stopping at the end of the first year.

I do not think that anyone would want detailed level 4 spending commitments for the whole period—apparently we do not have them for this year yet, so that is still an issue—but details down to level 2 and, possibly, aspects of level 3 are quite important, particularly in areas that are vital to the growth of the economy, such as Scottish Enterprise spend. For example, it is important to get an idea of Scottish Development International spend, to get a sense of where SDI is going. I would have thought that for such non-departmental public bodies, some assistance in

their planning over the longer term would be exceptionally helpful. It is not an unusual request.

As Joe FitzPatrick implies, some of the spending changes already proposed have a very short life. Some of them, such as the pay freeze, run out at the end of the present year. It means that there are consequences that ought to be considered rather than left hanging in the air. In that sense, I have some sympathy with the view that there should be a more forward looking projection, although I accept that it could not be very detailed.

**The Temporary Convener:** Mr Wood, is there anything specific that you would like to say in response to Mr Chisholm's question?

**Peter Wood:** I will try to respond to the question from Mr Chisholm that has not been answered, which was whether we could have shifted the balance of the budget to protect recovery. The scope is not huge, but if it was an absolute must, I would suggest finding ways to transfer resources to protect capital spending, notably in social housing. The housing sector is facing a serious situation in the declining output across the public and private sectors, so that is an issue on which more could have been done.

I hope that this will not be taken wrongly, but it is ironic that the Scottish Government's response to the reduction in public spending has in essence followed the lead of the English Government. The Scottish Government has protected the health service and cut spending on social housing, which are exactly the shifts that have occurred south of the border. Of course, those shifts fed into the Barnett consequential and it seems that they rolled on into the budget here.

On the second question, about looking ahead, I am reminded that when I studied economics at university it was, for good reason, called political economy. Questions about how we respond to a changed public spending environment and what priorities we should have for spending in the next three to four years are presumably matters that need to be thrashed out in the election next year. It is up to the parties, rather than technocratic experts, to say what the priorities should be.

**Jo Armstrong:** I challenge the view that the current powers do not feed through and that we do not get benefit from economic growth. If we are looking to replace public sector jobs with private sector ones, we have mechanisms for getting at least some of the benefits of economic growth. We might not get the benefits through tax revenues, but we would certainly get them through jobs growth. I would like to think that the Christie commission will have sufficient time and resources to do a thorough review of what is possible, but I have my doubts. I accept that waiting until the

commission opines would be of benefit at the fine level but, unless it gets its skates on and has an awful lot of resource to do it and a wide remit on which to deliver, one has to ask why we should wait until June.

I come back to my mantra—if Graeme Blackett's is on tax-raising powers, mine is on capital. If we unblock blockages on infrastructure, we help to create economic growth and encourage jobs growth. So that should be the approach. We are hell-bent on universal benefits, apart from free school meals, for which we are willing to have means testing. It would be a big benefit if we reduced the eligibility for bus passes, to save some funding for infrastructure. I agree with Peter Wood on social housing.

**Sir John Arbuthnott:** I have a quick answer for Mr Chisholm. Three things strike me, although again not from an economist's viewpoint. I do not know to what extent this has been done, but, if I were the minister, I would certainly look again at the budget to see whether things such as the spend on housing, roads and waste management and disposal, which are extremely important social measures that also impinge on economic development, are supported to the extent that they might be.

**Malcolm Chisholm:** I welcome the remarks about social housing. I said in a recent budget debate that that should be the number 1 priority for our capital expenditure, although I said that because of social as well as economic objectives. I am aware of an argument among economists about housing expenditure versus transport expenditure and, obviously, there are all the issues that Professor Ashcroft mentioned about the enterprise networks and so on. I was trying to make some sense of that, but it might be that there is no agreement, although I was reassured that at least two of you mentioned housing. If Professor Ashcroft wants to come back on that issue from a purely economic point of view, I would be interested in his comments.

**Professor Ashcroft:** As Peter Wood says, the issue in part begins from the ring fencing of the health service budget. That is one third of the budget and, if it has an impact on growth, that is largely in the long term, although one would not necessarily want to make that link. Although one can see strong arguments for protecting health, that is normally thinking about particular critical health services such as cancer or heart care—Mr Chisholm will know them better than I do. However, as the figures show, protecting the whole health budget significantly affects the rest of the budget spend, given the cuts that we face. It is difficult to make suggestions at the margin when there is that fundamental elephant in the room.

**David Whitton:** I hesitate to ask economists whether they agree with other economists, but the Ernst & Young Scottish ITEM—independent Treasury economic model—club has predicted growth of 1.1 per cent this year and 2.2 per cent in 2011. Does anybody agree with that, or do you disagree?

15:45

**Professor Ashcroft:** As they are our competitors, I happily say that the ITEM club appears to agree with us. This year we are forecasting growth of 1.1 per cent, which is an increase on our June forecast of 0.7 per cent. Growth will be 1.1 per cent next year, but that is still quite a bit adrift of the revised OBR forecast of 1.8 per cent growth next year.

One of the reasons for the difference is the fact that we have not changed our estimate since the June budget, which is the fiscal consolidation and includes the cut in DEL public spending, the implications elsewhere of the non-Scottish public spend, and the cuts south of the border. If we take 0.5 per cent out of Scottish growth next year, over and above what would have been the case, that will not be sufficient to push the economy into a downturn, but it will certainly slow it down.

We also changed the growth forecast for 2012 and brought it down from 2.1 to 1.9 per cent, because we saw the shift in the comprehensive spending review towards taking £17.5 billion out of the welfare bill over the period, which has worked to protect departments to some extent. The problem is that that money would have gone straight into the household spend of people who would have spent it all, because they are relatively less well off. We have estimated a loss of around £2 billion of demand, which is more than David Bell's assumption of £1.7 billion, made using a population share. We think that it might be slightly more than £1.7 billion, and that it will slow growth in 2012.

We are moving back towards trend. The recovery is better than many had anticipated, although it might be about to run out of steam a little bit in the coming months. We still do not believe—and I think that the ITEM club does not believe—that we will face a sustained double dip.

**Jo Armstrong:** I bow to the modelling experts; I do not have a view.

**Peter Wood:** I do not have a model in my pocket, as the saying goes, but I am sure that Brian Ashcroft will agree that studies that have been done on the reliability of forecasting have not always been flattering. It is quite a difficult activity. The big picture appears to be clear enough, and whether it is one percentage point one way or the other, we have not a double dip, but a recovery,

albeit a bit anaemic. We would really like to see growth going north of 2 per cent before we can believe that we are getting anywhere. The figures are probably as good as can be estimated and they point to a slow and not very enjoyable recovery.

**David Whitton:** We are expecting a large number of job losses in the public sector in Scotland. How convinced are you that those jobs will be replaced by jobs in the private sector up here?

**Peter Wood:** I was asked that question yesterday at the board meeting of that august body, the Dumfries and Galloway housing partnership. At the UK level, there will be private sector growth and employment in the private sector will go up quite strongly. I am, however, concerned about those parts of the country, especially those parts of Scotland, that are heavily dependent on public sector employment. Will we see private sector growth there? I do not have a firm numerical answer to that but I am concerned, not so much about the totality because there will be private sector growth in the wider economy, that some communities will suffer and will not benefit very quickly from renewed private sector growth.

**Graeme Blackett:** I want to pick up on Sir John Arbuthnott's point about the link between the public sector and the private sector. Some of what we have been talking about depends on how the budget is implemented. If agencies and local authorities decide to prioritise the areas in which they directly employ people and deliver services at the expense of areas that might be contracted out to the private or voluntary sector, there will be less growth than there would be if those agencies and local authorities were willing to look at the options that could help to drive growth.

**Professor Ashcroft:** You may not know that, using one of our quite sophisticated models of the Scottish economy, we have done a special exercise on the impact of the DEL cut on the Scottish economy. The worst-case scenario is that the private sector will lose about 43,000 jobs as a direct consequence of the public sector's breaking of contractual linkages and cutting back spending with the private sector. If wages and prices were fully flexible we could get a crowding-in effect and some job gains in the private sector. That seems less likely, but it is certainly possible. We are forecasting that growth in the economy will be just sufficient to absorb job losses—so there is still positive growth.

It is right to say that the recovery is anaemic. There is a lot of empirical evidence to suggest that a recession—and the following recovery—that occurs due to a financial crisis is quite different from other types of recession. One key difference

is that the recovery from a major financial crisis is much more anaemic. That is what we are seeing; it is a big problem for us.

**Sir John Arbuthnott:** I am wondering how the switch in employment will occur. In the communities that have been mentioned, there is quite a thriving private sector because there is a thriving public sector. If the public sector diminishes, will a new private sector come in, or will we have, as Graeme Blackett suggested, an expansion of the private sector, doing what was previously done by the public sector, using quite talented people? I am uncertain how the switch of employment will happen. Perhaps Brian Ashcroft can tell us a bit more about what kind of new developments there may be. Are we talking about new aspects that are created through private sector employment rather than about redeployment?

**Professor Ashcroft:** We are talking about the performance of the macroeconomy, which absorbs micro changes that go in all sorts of directions. We are not saying that there will necessarily be a switch of public sector workers into private sector jobs; areas that depend heavily on the public sector are likely to be significantly disadvantaged. All forecasters hope that the growth that will occur over the next few years will be largely driven by exports and investment. Most exports will come from our key manufacturing sectors, which do not require the same skills as jobs in the public sector. Some people will switch, as they did when the car industry declined, and move into other types of activity in the east of Scotland. The aggregate picture suggests that resources will be absorbed—resources can be drawn from any activity that is relatively high and from migration—but that does not mean that the people in the public sector who lose their jobs will necessarily be re-employed. Obviously, that is to be regretted. There may well be pockets where particular social action is required to address the hardship caused by job losses.

**Jeremy Purvis:** Good afternoon. I am struggling to match what the whole panel has been saying this afternoon with the key messages in the budget document. Under the heading “key messages”, it states:

“Our Purpose – to focus government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth – provides the foundation for this Spending Review and Draft Budget 2011-12.”

Further on, under the heading “our purpose and Scotland’s budget”, it states:

“Our Purpose is even more relevant in tough times. It guides the choices we have to make in setting Scotland’s budget for 2011-12 and in setting the direction for future years.”

Can you tell us what choices you think will have the biggest impact on the Government’s purpose, so that we can judge whether the figures in the budget will meet that purpose?

**The Temporary Convener:** Will I have to pick someone, or will someone volunteer to answer that question?

**Peter Wood:** It is obviously a very difficult question.

**Jeremy Purvis:** Just for the record, there has been a very long pause between my asking the question and the response.

**The Temporary Convener:** You have that effect on people, Mr Purvis.

**Peter Wood:** I am prepared to answer the question; I have form on the topic. Some years ago I wrote a report for the committee in which I said that no Scottish Government since 1997 has really prioritised economic growth. That remains my opinion. I think that the pressure has been to improve the quality and delivery of public services, which some people think is a very good thing. That is a fact of life.

I fear that the commitment to economic growth is more of a slogan than a reality. Nevertheless, although the enterprise, economy and tourism budget has suffered a bit, if we look at the detail of some of the things that have been done we find that there has been some emphasis on capital spending programmes in that budget getting a bit of a boost and there is some extra money to promote innovation within the activities of Scottish Enterprise, so it is not as if the Government is not trying anywhere. However, it is hard to look at the budget and see economic growth, as opposed to the protection of services, as the overriding purpose. I again come back to Professor Ashcroft’s fundamental point that certain commitments have been made that tie the hands of Government.

**Jo Armstrong:** We flagged up in our report this year and last that the areas that are typically related to the generation of economic growth have been cut: higher and further education, water, housing and the enterprise agencies. Those budgets have been cut again this year, so it is difficult to see the link between the headline of sustainable economic growth and the current budget allocations. Universal services, a number of which effectively benefit the better off, rather than allocating spending to priority areas is also an odd one. If I jump off the fence I agree that it is difficult to see a direct link. Maintaining spending within a fragile economy might be the argument for the current allocation.

**Professor Ashcroft:** Can I make the—

**The Temporary Convener:** Before Professor Ashcroft comes in, Derek Brownlee has a question.

**Derek Brownlee:** It is perhaps an unfair question, so I apologise in advance.

**The Temporary Convener:** Oh dear; I knew I should not let you come in.

**Derek Brownlee:** If, for whatever reason, £50 million or £100 million became available and the Government decided to use it to bolster the economy, would it be more effective to give it to the enterprise agencies or to do something else with it?

**Jo Armstrong:** My instinctive response is that, as a review of the enterprise agencies is taking place, if you want to spend some money quickly to make a difference quickly you should probably put it into housing.

**The Temporary Convener:** I will not bring Mr Blackett in because Derek Brownlee's question was specific to what Ms Armstrong said, but no doubt you will catch up and get to say what you wanted to say anyway.

I think Professor Ashcroft was going to comment next.

**Professor Ashcroft:** On the appropriateness of the budget for growth, the first point to underline again is that the Government is faced with a 38 per cent cut in its capital budget, which is significant. It seems to me that, against that background, ring fencing a large area of current services that are unrelated to economic growth makes it even more difficult to protect the growth objective. The decision might protect the stabilisation objective, because the health service is a significant employer, so that might ring fence some demand in the economy in the next year, but in terms of growth it will not help the economy.

In other areas, there are cuts in infrastructure expenditure because of the large cut in the capital budget and the enterprise, energy and tourism budget is being cut by more than the average DEL cut. The capital element of that budget is going up, and that is to be welcomed, but I suspect that if you look beneath that it is to do with renewables expenditure which, although it is not necessarily not linked to growth, is related to specific aspects of the renewables investment plan and the development of that industry.

16:00

If you go down to level 3, you see that cash outlays on innovation and industries and on energy support have been reduced by 1.5 per cent and 20 per cent respectively. Spending on innovation is critical to the economic development

model that we have. Over the past 10 years or more—regardless of who has been in government—we have probably not spent enough on the key areas of innovation and encouraging research and development in the private sector, where the problem tends to lie.

Last week, McKinsey published an interesting report on the UK economy. It was quite bullish and a good read. It pointed to an interesting piece of evidence: compared with many of its European counterparts, Britain did pretty well until the recession. We have improved our productivity and innovation rate relative to the rest of Europe, although we are still a long way behind the United States, but one problem that emerges from surveys of companies is that we have a particular deficit, compared with our international competitors, in infrastructure provision and the planning arrangements for it. Britain is sixth in the World Bank rankings for ease of doing business, but it ranks at 60-odd for ease of getting building permits. That issue is outwith the budget, but if Mr Brownlee were really to press me I would probably spend any extra money on infrastructure, because that would produce the biggest bang for your buck in future.

**The Temporary Convener:** I invite Mr Blackett to address Jeremy Purvis's question and, no doubt, Mr Brownlee's interjection.

**Graeme Blackett:** They are probably linked. You will not be surprised if I return to the topic of fiscal powers. It is one thing to look at what you spend money on, but deciding how big the Scottish budget should be is a fundamental issue. At the moment, no one has decided that. The Scottish Government has not done it because the money comes from Westminster, and the UK Government has not done it because the Scottish budget is determined by formula. Until you decide how big the Scottish budget should be, you cannot say that the budget is focused on economic growth.

**Jeremy Purvis:** I have read Reform Scotland's proposals closely. I have sympathy with some of them, but many of them worry me considerably. You have probably seen the latest revenue figures from the Treasury. If Reform Scotland's proposals were put in place straight away, as it would like, public spending in Scotland would be reduced by £1.25 billion. When you say that we should address who decides the size of the budget, are you arguing that the size of the Scottish budget should be reduced? Are you saying that that should be the political position because it meets your philosophical aims?

**Graeme Blackett:** No.

**Jeremy Purvis:** Is it just an accident that the budget would be reduced by £1.25 billion?

**The Temporary Convener:** I do not want us to get into that subject, which is a different debate. However, Mr Blackett may address the specific issue that Jeremy Purvis has raised.

**Graeme Blackett:** The current financial situation does not really impact on the debate on fiscal powers, which involves deciding either to continue under the current system or to have fiscal powers and to take on debt rather than cut funding. The decision does not really change.

**Sir John Arbuthnott:** Mr Purvis asked whether the budget will fulfil its general purpose. If we must grow certain things and develop our capabilities in the way that Professor Ashcroft has described in order to get growth, we need to be clear about where we are going on further and higher education and on private sector investment in R and D. Those two issues are not clear on a recurrent basis. We have a talented group of young people and we have good institutions, but for some reason we have not translated that capability—with the private sector potential—into the growth in exports that we should have. I would ask for the emphasis to be placed on that.

**Jeremy Purvis:** I have another general question. Have you read anything in the budget that is a considerable departure from the decisions that were made on spending priorities in the UK comprehensive spending review?

**The Temporary Convener:** I think that the sigh from Professor Ashcroft is an indication of his wanting to answer immediately.

**Professor Ashcroft:** I do have something to say. One of my concerns about the budget relates to the specification of efficiency savings. A general issue in the budget links to transparency about yields from actions that are taken, which seems to be a problem that runs through the document. That is common, but it does not occur in the red book, for example, which gives a bit more indication of the yield of a tax change at the UK level. That issue is important.

Like everybody else, I took the efficiency savings of 3 per cent and started to play with the figure. When I threw it against the total DEL budget, I got £837 million; against the resource budget, I got £762 million. Then I saw the figure of £225 million in a Scottish Parliament information centre publication that is linked on the Economy, Energy and Tourism Committee's website, which I found out came from paragraphs 3.10 and 3.11 of the independent budget review report. The efficiency savings that we are being asked to consider are implied to be to the resource budget minus the pay bill and minus the capital outlay—which is inconsistent, if resource is taken off—which gives us £225 million. What does that mean? It means that the efficiency savings are

being applied to the non-labour, non-capital element of the budget, which is intermediate purchases—goods and services. That is apart from the procurement savings of about £21 million. When I looked at the budget and heard the cabinet secretary speak, I thought about efficiency savings and the big picture as economists understand it—reducing inputs, given outputs, or increasing outputs, given inputs—but that is not the case at all. The saving appears to relate to a small subset of the budget, which is a much less onerous objective than trying to save 3 per cent on the whole budget.

Of course, my interpretation might be wrong. The budget documents do not help us with that. I need to be careful to say that that differs from the situation in the rest of the United Kingdom, where I have the sense that such matters are described and policed a little more rigorously.

**Jeremy Purvis:** You think that the strongest difference between the Scottish budget and the comprehensive spending review is in the definition of efficiency savings.

**Professor Ashcroft:** No—I did not say that that was the strongest difference. I talked about what jumps out as quite significant.

**Jeremy Purvis:** My question was broad. The CPPR and the Fraser of Allander institute have produced tables on the priorities and on what they define as the winners and losers. Is it true that it is striking that those tables are broadly consistent with the percentages and the winners and losers as a result of the UK comprehensive spending review for UK Government departments, when defence and other reserved matters are stripped out?

**Peter Wood:** We can look at the big picture rather than get down to the difficult detail. Scotland's headline cut in DEL resource was less than the overall cut in resource at the UK level because of the share of NHS spending in our resource. Correspondingly, our cut in capital was higher than the UK average cut because of the weight of what is in effect social housing in our budget. It seems to me that, in essence, we have mimicked that: we have protected health and cut social spending, which are the two big drivers in the Barnett consequentials. If the Scottish Government had responded by saying, "Do you know what, we've got a bit more money than we might have expected because of the size of the health budget," and decided not to keep that for health but spend it on something else, that would have been going in a different direction, but it did not. I am not saying that it is easy to make those choices, but the change that we have seen in the Scottish budget has largely been driven by the change in the UK-level budget. It is a version of the UK budget. Obviously, there are detailed



differences and I am sure that one could find them somewhere, but those are the big swings.

**Jo Armstrong:** One might argue that the Barnett formula worked in Scotland's favour this time but we chose to mimic what went on down south. In the past, the rhetoric has been that we did not need to mimic what went on down south, but we have done that in the main.

Two most striking points to me are not the main differences. One is the point about which Sir John has been arguing: the funding of higher and further education. We have taken a huge cut, but the funding arrangements are fundamentally different. That seems strange to me.

The second difference is my pet project—Scottish Water. We have robbed Scottish Water's piggy bank of £140 million this year. We just have to put it back in next year.

We have found every way we can not only to mimic what is going on down south but to raid the piggy banks across the board.

**Professor Ashcroft:** I will come back on Mr Purvis's point. It is important because, if we take the efficiency savings at face value—3 per cent of the budget—and add the pay freeze, those two measures provide the amount that we need to save this year, which is £1.2 billion. It is clear that that cannot be the case, but that is what one could deduce from the way in which the material is presented.

**David Whitton:** I have a question for Ms Armstrong, seeing as she raised her favourite topic of Scottish Water. What will be the impact of the unique way that the company has been asked to make a contribution, given that it is a big spender of the capital budget in Scotland?

**Jo Armstrong:** My understanding is that it has reserves. Part of the settlement was that it would be allowed to build up reserves to cover cost overruns or shocks to the system that were not funded by user charges.

**David Whitton:** It would certainly be a shock to the system to be told that it was not getting any money next year.

**Jo Armstrong:** I suspect that its reserves are being depleted to, if not nil, close to it. The budget document clearly states that the funding will still be available. I think that it is £700 million over the five-year spending review period with an equivalent remaining over the three-year period, so the capital requirement is being knocked into the last three years of the spending review. As far as I can understand, that is the basis of the settlement. Scottish Water will require that funding, so it will not go away.

**The Temporary Convener:** Jeremy Purvis has a final, small question specifically for Professor Ashcroft.

**Jeremy Purvis:** It is on efficiency savings. From what Professor Ashcroft said, it sounds to me as if the Government has used a different mechanism on the efficiency outturns, because it has used the 2 per cent target and, I think, the 2007-08 DEL resource baseline without stripping out the elements that he mentioned. If that is right, is the Government now using a different definition?

**Professor Ashcroft:** To be fair to the Government, that is in the IBR report.

**Jeremy Purvis:** But what about the efficiency outturn figures that we have had year on year?

**Professor Ashcroft:** Well, the IBR report says that a

"2 per cent efficiency target across the public sector on a year-on-year basis could generate savings (excluding pay and capital) in the last year of the next Spending Review period",

so it appears to be the same basis.

**Jeremy Purvis:** The Government could be using the same basis as the IBR, but it could be using a basis that differs from what it has said for the past three years.

16:15

**Professor Ashcroft:** I am suggesting that the Government cannot be using the total as the basis; the basis is resource minus pay minus capital, which is a much lesser objective than I first understood—I took the total to be the basis. It may be common practice to do that, but I suggest that that removes any need for efficiency savings in the labour input—because jobs would be lost—or in the capital input. I assume that that is in part because there is a pay freeze, which is seen as the labour element of the contribution. By "efficiency savings" one generally means seeking to minimise the inputs for a given output or maximise the outputs for a given input. What we have is quite different from my understanding of efficiency savings.

**Malcolm Chisholm:** The elephant in the room today is the local government budget. We have been round most of the other lines. Have any of you done any work on this budget line? How will it work out, given the concordat commitments on police numbers and education, for example? Does it all add up or are there problems in that budget line? I suspect that a lot of the political controversies may come around that.

I have one question for Sir John Arbuthnott, given his expertise in the area. How do you see the social care situation developing in terms of the

change fund? Is the fund a significant innovation or will it operate as a traditional fund to stop the delayed discharges with which we all have been familiar for many years?

**Sir John Arbuthnott:** In his statement to the committee in your previous session, the cabinet secretary was clear that we have to do something to improve the interface between support at home and social support in the delivery of medical services to older vulnerable people. He said that the change fund is partly for that purpose. I am a little bit nervous about that. Public sector budgets are being squeezed significantly. I think that the headline figure for the percentage real cash cut in the local government budget line is shown in one of the tables as 7.4 per cent. That is a significant figure. In that situation, the tendency when money comes along is to use it to do things that you were always doing. I am concerned about that.

There is also the fact that the third sector and local enterprise has been cut by more than 25 per cent. That is my reading of the situation. Charitable organisations derive more than 20 per cent of their funding from local authorities. If authorities have less money, what kind of impact will that have? That is the central question. The interaction between authorities and the third sector is quite fragile. That worries me, given the tremendous amount that the sector does to look after the needy members of our community.

**Jo Armstrong:** As the committee may know, I am the Local Government and Communities Committee budget adviser. I do not know the appropriate protocol that applies in that regard.

The CPPR produced a supplementary note today on the local government settlement; it is a ready reckoner of the numbers that should help people to follow where the numbers are going. I am afraid that I do not quite recognise the number that Sir John cited. The reality is that the numbers come down to what is added in or taken out. In those terms, the local government settlement can be seen as better than or worse than the Scottish average. That was ever the case.

The third sector is important. The level 3 data suggest that although the overall budget has gone down, the budget for community planning engagement and capacity building appears to have gone up in real terms. Clearly there is an expectation that the third sector is part of the solution to the local government problem of delivering services with a substantial budget cut. There is no doubt that the budget cut is substantial. As with other budget lines, we have to be careful what we measure in the local government budget line; we have to be careful what we include and exclude in the baseline figures in terms of saying whether a cut is large or small.

**The Temporary Convener:** That paper will be useful. Thank you for drawing our attention to it.

Unless anyone has a hugely pressing issue to raise or has had a eureka moment, we will close the discussion. Would the panel members like to say anything more in less than a minute each?

**Professor Ashcroft:** I had the pleasure of being the Finance Committee's first budget adviser, when the budget process started 10 years ago. It is a pleasure to give evidence to the committee this time round. It is good to see how the budget procedures have improved and I am pleased to see how good your current budget adviser is. He is far better at advising the committee than I ever was, and his paper is excellent.

However, there are one or two things that concern me a little. There is still a presentational issue in the budget documents about information and clarity on issues such as the yield from efficiency savings, how the efficiency savings are applied to realise savings, the yield from the increased non-domestic rates on large out-of-town retail properties, the savings from the pay freeze, and the related choices to be made on the recruitment or replacement of staff. A lot of information that is crucial to the deliberations is not included in the budget. There may be a good reason for that, but one would like to see more information and transparency right across the system.

**Jo Armstrong:** I echo that point. A lot of information has been provided but it is still difficult to follow the pound. Greater reconciliation would be helpful. If people are being asked to understand what is being done, what has been done ought at least to be made transparent.

**Graeme Blackett:** I will not return to my theme of fiscal powers.

**The Temporary Convener:** Why not? I rather liked it.

**Graeme Blackett:** The committee knows my view on that.

I want to mention a point that has been made a few times. Many of the measures in this year's budget—the pay freeze, for example—are short-term measures. To deliver savings in the longer term, the reform agenda needs to be looked at. Reform Scotland has specific proposals, but we should, in general, move from a command-and-control approach to greater diversity and local delivery.

**Peter Wood:** I echo the point Professor Ashcroft made about information. I am adviser to the Economy, Energy and Tourism Committee. We have still not seen level 4 figures. I cannot understand why more detailed information cannot

be provided earlier in the process. I will leave it at that.

**Sir John Arbuthnott:** I will cheat a little bit and go back to the session before.

**The Temporary Convener:** You can do anything you like as far as I am concerned, Sir John.

**Sir John Arbuthnott:** The reason for doing that is to pick up on the strong emphasis that the cabinet secretary put on preventative spending and the discussion in which it was indicated that the issues are really rather short term. In my original submission to the committee some months ago, I said that I hoped that the Finance Committee could take a long-term view that is not always derailed by our electoral cycle. It is well placed to do that.

**The Temporary Convener:** I thank everyone for attending the meeting, which has been useful for the committee.

As we agreed under agenda item 1, we will now move into private session.

16:23

*Meeting continued in private until 17:36.*



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