



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 26 October 2011

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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	159
DRAFT BUDGET 2012-13 AND SPENDING REVIEW 2011 SCRUTINY	160

FINANCE COMMITTEE

7th Meeting 2011, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Alex Johnstone (North East Scotland) (Con)

*Derek Mackay (Renfrewshire North and West) (SNP)

*Margaret McCulloch (Central Scotland) (Lab)

*John Pentland (Motherwell and Wishaw) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Councillor David Alston (Highland Council)

Professor Jo Armstrong (Centre for Public Policy for Regions)

Gwen Barker (East Ayrshire Community Planning Partnership)

George Black (Glasgow Community Planning Partnership)

Marita Brack (NHS Education for Scotland)

Rachel Cackett (Royal College of Nursing Scotland)

John Dickie (Child Poverty Action Group in Scotland)

Aubrey Fawcett (Inverclyde Alliance Community Planning Partnership)

Professor Jeremy Peat (Royal Society of Edinburgh)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Wednesday 26 October 2011

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning and welcome to the seventh meeting of the Finance Committee in the fourth session of Parliament. I remind all members and everyone else in the room to turn off mobile phones and pagers.

Item 1 is to decide whether to take in private both item 4 and consideration of the committee's report on the draft budget in future meetings. We would move into private session today to allow us to consider the key themes arising from the two oral evidence sessions, which will help inform the structure and content of the committee's report. It is usual practice to take consideration of draft reports in private to allow a free and frank discussion on the content and recommendations. Are members content for those items to be taken in private?

Members *indicated agreement.*

Draft Budget 2012-13 and Spending Review 2011 Scrutiny

10:01

The Convener: In item 2, the committee will take evidence from Jo Armstrong from the Centre for Public Policy for Regions and Professor Jeremy Peat from the Royal Society of Edinburgh. I welcome both witnesses and invite them each to make a short opening statement.

Professor Jo Armstrong (Centre for Public Policy for Regions): Good morning and thank you very much for inviting me along today. I will make a brief opening statement about the context in which we find ourselves with the budget.

We are facing unprecedented uncertainties about economic growth in euroland as well as across the major countries with which Scotland trades. The influence that that has on the sustainability of Scotland's economic growth is fundamental. The budget that we are talking about today has to be set in that context.

This is the first time since devolution in 1999 that we have had to make choices about where we spend our declining budget. The Government's budget document confirms what it thinks are the right choices to make. Its top priority is to secure economic recovery and create jobs.

The information in the budget document on the capital side of things is a bit less clear than we would like, but there is certainly a significant drive to secure as much funding as possible to maintain growth through maintaining aggregate demand. There are some areas where one might question that, but in the main it is about trying to secure as much funding as possible to secure aggregate demand in a time of serious uncertainty.

Given the serious uncertainty, the budget scrutiny this time round needs to be about making sure that we are comfortable that the spending allocations target the strategic goal of economic growth. For example, is the departmental expenditure limit capital being spent on the right projects? There are an awful lot of projects in the budget that were perhaps identified at a time of what we might describe as relative plenty. One questions whether they all now target economic growth or have equal value in achieving that aim.

We have seen an attempt to identify as many sources of funding as possible through, for example, regulatory asset base, non-profit-distributing models, tax increment financing and the national housing trust. Those initiatives all aim to maintain and accelerate spending on infrastructure, but they have implications for liabilities into the future. It is a question of how sustainable the initiative is, not just for the short term but for the long term.

One has to question whether some redistributive elements in the budget are sustainable. The obvious ones have been well trailed over the past two or three years: the council tax freeze, free prescriptions, free personal care and free bus passes, to name but a few. We must ask whether they are all still sustainable given where we are now, rather than where we have come from.

The Royal Society of Edinburgh's submission clearly signals a wish to think again, or at least to be absolutely certain that we are still using our resources as efficiently and effectively as possible. Some of the larger budget items might well be worthy of further or reopened scrutiny about whether they are, on a cost benefit analysis, the most cost-effective use of the increasingly scarce resource.

That is all that I want to say. You have the CPPR reports and I am happy to take questions.

Professor Jeremy Peat (Royal Society of Edinburgh): Good morning. I echo Jo Armstrong's point: I am delighted to have been asked to give evidence on behalf of the Royal Society of Edinburgh. I want to make three quick points that I think are consistent with what Jo has just said.

The first is about the context. We have a seminar this evening in Holyrood about the economy and where it is going in the medium term. When we set it up with Scotland's Futures Forum a few months ago, the scenario that was painted by the speakers was at one rather depressing extreme, but that scenario is now the central expectation or, if anything, somewhat optimistic. The change that has taken place over the past few months is dramatic and happened from an already low base, and it reinforces the need to look strategically at Scotland's budget in the expectation that the position will be difficult in economic and fiscal terms for some years to come. That means that the evidence-based consideration of all options is even more important at this difficult time.

That leads me on to my second point, which is about the importance of scrutiny. I welcome the role of this committee and underscore its importance in considering the proposals that are put forward and discussing the various elements of them. That role is vital. I also welcome the work undertaken by Audit Scotland and the Auditor General for Scotland, which is another exceptionally important role. We note in our short submission that consideration should be given to an internal treasury function within the Scottish Government to challenge spending proposals as well as consider them in an overarching and comparative way. There have been pieces on that recently. As the problems get more intense and as financial devolution progresses, the importance of

such a function becomes greater and the need for consideration of whether the resources and folk are there to deal with the issue in the right way moves up the agenda.

Thirdly, in our view no policy should be protected until all the costs and benefits, including the opportunity costs of undertaking the policy, have been vigorously and objectively assessed. In our view, that applies to policies that deliver universal benefits as well as to other policies, for no other reason than the scarcity of resources and the importance of carefully considering matters in the context of what is good for the Scottish economy and Scottish society given those scarce resources. We note the desirability of that objective and rigorous assessment.

That, essentially, is the message I am trying to get across. Evidence-based and transparent debate must continue, not only within the context of this budget and spending review but with an expectation that the problem will remain extremely difficult for some years to come.

The Convener: Thank you both very much. Before I open up the floor to questions, I want to ask you one question each. Professor Peat talked about opportunity costs and we will go into that later, but I want first to ask a question of Jo Armstrong based on your opening statement. You talked about capital projects and DEL, and you talked about some that might or might not be worth while. Can you expand on that and tell us which capital projects you feel would not deliver value for money as regards the Scottish Government's economic objectives?

Professor Armstrong: You have to be careful, as value for money is only one aspect. There has been a lot of debate about the roles of infrastructure and capital spending in assisting economic growth in Scotland. We need to consider two elements of that, and they might mean different types of projects as a consequence.

There are clearly short-term job prospects as a consequence of accelerating capital spending now rather than waiting another two or three years for a time when you might have more funding. An obvious example would be house building, which is typically labour intensive, local and relatively easy to put in place. Accelerating spending to carry out such projects creates economic growth in the short term.

If you are taking from future spending, all you are doing is shifting the jobs from the future into the present. That is clearly important at the moment, because aggregate demand is deficient. However, the longer-term justification for maintaining infrastructure spending at the cost of reducing resource spending would be to target

investment projects that unblock blockages and facilitate economic transactions and growth, such as projects around broadband and the physical infrastructure for road, rail, sea or air travel that facilitates exports, tourism and the key businesses in the economy.

There are other projects in the list that are not directly linked to those two aspects, such as schools and hospitals. We clearly need schools and hospitals, so I am not saying that those are not good projects, but given that we are in a world in which we have significantly less capital than we thought that we would have two or three years ago—the capital grant funding has basically been halved and, even if we get additional powers, it will be harder to get the debt at the price and over the term that we want—we have to ask why we are spending money on any given piece of infrastructure and what we want to get from it. Do I want a new road? Do I want to maintain existing roads? Do I want broadband? Do I want to have more hospitals and schools? Those are difficult choices to make. Thankfully, they are political questions, not economic ones. However, those choices give quite different outcomes and lead to quite different impacts on the growth of the Scottish economy.

The Convener: Professor Peat, in paragraph 13 of your submission, which is entitled “Other Revenue Sources”, you say:

“The Finance Committee should also explore whether there are further revenue or capital raising measures that the Scottish Government should pursue”.

Do you have any suggestions in that regard?

Professor Peat: I am sure that, if there were any easy solutions, they would have been found by now. The specific example that is mentioned in paragraph 13 is the funding of Scottish Water. I know that there are firmly held political views about that, but we are simply suggesting that another look is merited to see whether there are means by which funding could be released for other activities without damaging the position of Scottish Water and the essential service that it provides to Scotland.

The issue points to the need to be aware at all times of how resources can be tied up in various ways and how one should always consider alternative means of delivering different activities and services to see whether they can be undertaken in a way that releases resources without causing severe damage to other aspects of the objectives. Scottish Water was the only example that sprang to our minds.

John Mason (Glasgow Shettleston) (SNP): The CPPR submission dealt extensively with the issue of non-domestic rates. There is a feeling in some quarters that a lot of individuals are

struggling, which is why we have tried to keep the council tax down. A lot of people have pay freezes and are making increased pension contributions. A lot of ordinary people have been hit.

There is a question of how we can shift the balance more towards businesses—some of which are continuing to be quite profitable—without hitting them too hard. John Swinney has therefore put in place the non-domestic rates programme, including the health supplement for alcohol and tobacco, which, essentially, affects the larger supermarkets. It was suggested before that, if we increased minimum pricing for alcohol, big supermarkets would make excessive profits, and the health supplement provides a way of pulling back in some of those profits. Do you feel that the balance is wrong? Should we shift it again, so that the individuals are hit a bit harder?

10:15

Professor Armstrong: Our paper on non-domestic rates tried to outline where the increase is taking place, the growing importance of non-domestic rates income in allowing the Scottish Government to balance its books and, therefore, the potential risks that underpin the balanced budget because of the need to introduce substantial increases in non-domestic rates to balance the books. I am not making a judgment call about whether council tax payers should pay more and non-domestic rates payers should pay less—in the round, the Government needs to find a way to balance the books—but I am pointing out that non-domestic rates income is becoming a more important part of the mix than it has been in the past.

In a world in which there is, at best, sluggish growth in the economy, significant additional risk is incurred by requiring the increase in non-domestic rates income that is implied in the budget. Rates are not based on profits or linked to profitability; they are based on a business physically being in a property, for which it is charged a certain amount by the council. The budget requires an income from businesses that are not benefiting from the small business bonus scheme. That required income is being increased well above the rate of inflation—the retail prices index or otherwise—and it is not just nice to have but essential in order to balance the books.

John Mason: Does Professor Peat want to say anything on that point?

Professor Peat: I hope that we can take it as read that every answer is prefaced with the comment that we understand the huge difficulty that was faced in delivering the budget documents and the balancing that was required. No choice was easy—that must be taken as read.

In this case, it is the issue of policy consistency that worried us. On the one hand, there is discussion of a possible reduction in corporation tax in Scotland; on the other hand, non-domestic rates are being increased way above the rate of inflation. The latter hits all businesses, including those that are not profitable, and must risk damaging a number of companies at the margin. The corporation tax proposal would work in the other direction, but only for businesses at a certain level of profitability.

One needs to look at the balance of the ways in which one deals with businesses and consider a variety of ways of providing incentives to businesses that will lead to sustained economic growth at a higher level. That includes revisiting the position of business rates as well as considering a selective approach to corporation tax reductions. Consistency is necessary, as is the link to the economic growth agenda, which is what will get us out of this difficult situation.

John Mason: I am a bit puzzled. You are talking about a large increase in the level of non-domestic rates in Scotland. According to the figures that I have been given, the increase excluding policy changes will be about 20 per cent up to 2014-15—23 per cent including the policy changes. That compares with proposed increases in the United Kingdom of 22 per cent in income tax receipts, 35 per cent in capital gains tax and 32 per cent in air passenger duty. In the context of that bundle, the increase does not seem too great.

Professor Peat: We should reflect on how it seems to individual businesses. For those that are working at the margin, it may mean the difference between their being profitable and thriving and their being at the margin, struggling and potentially failing. That is the type of impact that one must consider.

John Mason: But you accept that some businesses continue to be profitable.

Professor Peat: Indeed they are. A number of them are profitable; the difficulty is often in getting them to invest.

The interesting issue around corporation tax is how we can get more investment in innovation and change in our economy at a time when demand is weak both internationally and domestically. How can we provide incentives for that? The right way is not to increase companies' profitability by reducing corporation tax but to provide incentives for investment in the right forms of activity that will be necessary to lead Scottish companies up the value chain and make them more competitive in the increasingly difficult world in which they are attempting to compete. That is all that I am saying.

John Mason: Both of you, particularly Professor Peat, have raised the issue of balance and

choices. Surely one of John Swinney's problems is that his powers are too limited and that he can affect only a small range of taxes; indeed, Professor Peat has just mentioned corporation tax. Are you effectively saying that it would be better for Scotland to have a wider range of powers as it would allow John Swinney to strike a better balance?

Professor Peat: I would hate to be seen as saying that on behalf of the Royal Society of Edinburgh. That is a different set of questions. What we are trying to say in our submission is that it is necessary to consider balance in the context of the choices that exist. There is a wide range of such choices—for example, the use of council tax as opposed to non-domestic rates—and on this occasion we are referring to that context, not the question of wider powers.

Professor Armstrong: I do not think that any economy in the western world thinks that it has all the powers that it needs to deliver everything it wants. After all, the markets determine the borrowing that is possible.

Let me reiterate two things that we are flagging up in our reports: first, the reliance on required increases in non-domestic rates is an additional risk that has not been present before; and, secondly, in certain areas non-means-tested benefits are effectively being given away to people who do not need the support. If resources are scarce—and resources will always be scarce—we have to consider whether they are being allocated in the best possible way. Given some of the other giveaways in the budget, I do not think that the balance with regard to the non-domestic rates income has been treated fairly.

Derek Mackay (Renfrewshire North and West) (SNP): The professors have provided a wide range of information. On revenue generation, Professor Peat highlighted the difference between corporation tax and non-domestic rates. My understanding is that, if allowed, the corporation tax change would give Scotland a competitive advantage, whereas the non-domestic rate assumptions would not make things less competitive here than in England because the rate is tied to the English poundage, which is a large contribution to the figure that has been mentioned.

In its submission, the RSE asks Government to be more imaginative about revenue generation and then goes on to question its plan to introduce the business rates supplement on large retailers that sell tobacco and alcohol—the money from which will be ring fenced for preventative spending projects—because of a concern that it might

“contribute to increased prices across the ... range of goods that large retailers sell”.

Given that, as I understand it, the levy would constitute a fraction of 1 per cent, what would be the follow-through to goods on the supermarket floor?

According to Professor Armstrong, the risk associated with non-domestic rates is that local government might become more dependent on them given that they determine its grant, but that is not true. The Scottish Government guarantees the figures outlined in the local government settlements and has traditionally met any shortfall in non-domestic rates.

Professor Armstrong: In the budget it is unclear from the departmental budget lines whether local government settlements are covered under the same arrangement. However, what we are flagging up is that the overall budget is at risk if non-domestic rates income, the required increase in which is well above the rate of inflation, does not come in at the forecast level.

Derek Mackay: I imagine that the same will be true for the chancellor in England if those assumptions are not realised.

Professor Armstrong: Absolutely. As we know, expected economic growth in the UK is significantly lower than was forecast in the March budget, and we are awaiting the pre-budget statement in November to see whether we will face additional cuts as a consequence of additional benefits payments and potentially reduced tax revenues.

Derek Mackay: To remove any uncertainty, it is true to say, as I have said, that the Scottish Government has met any shortfall in non-domestic rates.

Professor Armstrong: Yes. Historically, that has been the case.

Professor Peat: I would like to respond to the first point that Mr Mackay made about paragraph 10 of our submission.

At the RSE working group of fellows, the point was put to me that there is a risk that a business rate supplement on large retailers could flow through to increased prices for a wide range of basic commodities rather than simply to increased alcohol prices. The RSE has been broadly supportive of the measures that were proposed in the previous parliamentary session to introduce the minimum pricing of alcohol, but it would be concerned if the impact of a business rate supplement on large retailers did not feed through specifically to alcohol and potentially tobacco but fed through to basic commodities that households buy in those large retailers. There is a difference between a carefully targeted measure such as minimum pricing and a broader-brush measure that may have undesirable impacts. We simply

seek that you check that those impacts are not likely to happen if such a proposal is implemented.

Derek Mackay: Surely it is accepted that the proportionality of both policies is right. The broad-brush approach of a supermarket levy would involve a levy of a fraction of 1 per cent, whereas the targeted policy to change behaviour will have a greater impact on consumption, as that is the essence of the policy.

Professor Peat: I am saying that the impact of minimum prices would be felt directly on the prices of alcohol and tobacco and that they would therefore have the effects on purchases and health that you seek, whereas the impacts of a business rate supplement would be somewhat less predictable and could go wider to affect basic commodities that are not the intended target of the policy change. We ask you to consider that.

Derek Mackay: Okay, but the figure is a fraction of 1 per cent.

Professor Peat: Many a mickle makes a muckle, as they say somewhere.

John Pentland (Motherwell and Wishaw) (Lab): I want to follow up on corporation tax and non-domestic rates. I tend to agree with the report by the Centre for Public Policy for Regions: if we were to decrease corporation tax and increase NDR, many small businesses could suffer, especially if they are near the border in terms of making profits. There is probably a difference of opinion on whether we should support a decrease in corporation tax.

I have a question for Professor Peat. In your introductory remarks, you spoke about an internal treasury function. As a member of the Finance Committee, I do not find the costing of policies to be transparent or evidence based. The UK Parliament, for example, has the Office for Budgetary Responsibility, which subjects draft costings and tax and spending measures to detailed challenge and scrutiny, and the results are published with reasonable estimates. Would such a facility for the Scottish Government make things a lot better for us?

Professor Peat: On the Office for Budgetary Responsibility, I am delighted that Robert Chote came and spoke to the Parliament's Finance Committee when he was up here recently. My view is that the OBR has a responsibility to the devolved Governments as much as to the UK Government, and that it should provide its views to the Scottish Parliament and be open for consultation and debate with it as much as it is with the Westminster Parliament. The same applies for the Welsh Assembly Government and the Government in Northern Ireland. The OBR's role is for the UK, so it should have such discussions.

The Bank of England makes monetary policy for the UK and is therefore of crucial interest to the Scottish Government; similarly, the OBR's forecasts and very careful analyses should be available here. I believe that Mr Chote would be willing to liaise further, which would be of great value. It is important that the committee understand the people who do the forecasting and calculations that the UK Government uses, and which have implications for the Scottish Government, and that the committee has the opportunity to challenge and debate with them. Rather than have an office for budget responsibility for Scotland, I would like the Office for Budget Responsibility to be for the UK and the nations, and for it to be clear that that interaction should take place.

10:30

If I may, I will go on to the other half of your question. In a sense, there are three levels at which we are looking for the challenge function to take place. One is within the administration of the Scottish Government. I worked at Her Majesty's Treasury for a brief period, and I am aware of the challenge function that it adopts to the different Government departments. Strict, careful and rigorous scrutiny of proposals is done before they get into a budget or a programme. It is also arm's-length scrutiny because it is not undertaken by the civil servants in a particular department but by people within Her Majesty's Treasury who are there to look at programmes that come from all parts of the UK Government. They provide that extra level of challenge to make sure that the programmes have been properly assessed, that all the options have been considered, and that they have been considered against other demands for finance.

Perhaps within the Scottish Government we lack the full rigour of such internal scrutiny. As we progress from where we are to potential further fiscal and financial devolution, that will become increasingly important, particularly when resources are so scarce. When the budget was going up by X per cent per annum on a continuing basis, such scrutiny was less important. Now, when the economy is stable or declining in real terms, it is absolutely critical to have that internal scrutiny in addition to another two levels of scrutiny.

The second is scrutiny by the Finance Committee and other committees of the Parliament. You have a vital role to play and I welcome being involved and engaged with you.

The third level is external scrutiny by Bob Black and his department, by the independent budget review team under Crawford Beveridge and by other such external bodies. I am not looking for the OBR just to give forecasts and to debate; I am

also looking for enhanced internal scrutiny within the Government before proposals are accepted, then parliamentary scrutiny by this committee and others, and also the continuation of the good work of Audit Scotland and others. Altogether, that will provide real input on issues such as corporation tax, for example.

We had a paper on corporation tax from the Scottish Government and we now need more independent, objective and rigorous assessment of the proposals and the options for implementing it. As we have also said in the paper that we submitted to the committee, we sometimes find that proposals are based on a priori assumptions rather than on comprehensive evidence. The corporation tax proposals are well worth examination, but they have not yet been subjected to comprehensive and objective analysis that can be seen to be thorough and done at arm's length. That is the type of scrutiny that is required.

John Pentland: Could you give an assessment of what, if the OBR's role was extended to cover the Scottish Government, it would think of the proposals that the Scottish Government is making just now?

Professor Peat: I do not think that I could.

However, it is not a matter of extending the OBR's role to cover the Scottish Government. My understanding is that the OBR considers issues for the UK as a whole, so the implications for Scotland of what it is saying should be part of its existing responsibilities. If that is implicit at the moment, it should be made explicit. That is the OBR's job, although I do not think that it will sit down with the Chancellor of the Exchequer and comment on individual aspects of his proposals. The OBR exists to provide context and the well-informed background that helps this committee and others to make good judgments.

Professor Armstrong: I would like to tease out a little bit more about the OBR. It seems that as we move towards additional fiscal powers—in whatever guise they come—the OBR's role will increase in importance because it will, under the Scotland Bill, develop forecasts of income for Scotland. There will then be an issue about the level of scrutiny by Parliament and the committee of the OBR's forecasts. That will be a key driver of the income that the Scottish Government will receive. It will therefore be more important to understand the role that the OBR will play in the future and what links and formal locus of interest it should have with this committee, for example.

Paul Wheelhouse (South Scotland) (SNP): I thank the witnesses for appearing and giving evidence today. I am extremely concerned about some stories that have come out since the initial response to the spending review in the CPPR's

report. A number of businesses in the Scottish Borders were concerned about what they called a “massive increase” in business rates. Will you comment on the impression that was given, which was that the increase in business rates over the period of the spending review would be more than £800 million? If a similar methodology were applied to the UK Government, that would imply a £212 billion increase in taxes in one year. Have you any regrets about how the information was presented?

Professor Armstrong: It has certainly been extremely uncomfortable to be described as being “misleading” and as using triple and double counting. In everything we do, we attempt to be as transparent as possible and as independent and objective as possible.

We outlined two key figures in relation to non-domestic rates income. One was the additional income that will be required by 2014-15 generated from non-domestic rates—which is £490 million. However, it is also clear that Scotland’s businesses are, over the three years of the spending review, supporting the Scottish Government’s budget by £850 million. That is a fact. We never said that the budgets had to rise in one year by 22 per cent; we said that the figure was cumulative over the three years.

At times, the Scottish Government’s budget document talks about cumulative figures. For example, the renewable energy figure is at a cumulative level of £200 million over the three years. Cumulative numbers are used by a variety of people in a variety of ways. It is important to understand what the numbers are saying, which is why we put out a supplementary report to make it crystal clear what the two numbers mean and what we were saying about them.

Paul Wheelhouse: I appreciate that a second report came out, but a lot of concern was created during the initial period; hence my worry about presentation.

Professor Armstrong: We cannot—nor would the committee want us to—drive what the press do with what we produce. We try in every way, shape and form to be as clear and concise as possible. We cannot write the headlines for the newspapers.

Paul Wheelhouse: I take that point. I wonder whether you and Professor Peat would comment on the decomposition of the figure of £493 million. My understanding is that £280 million of that increase of £493 million reflects normal practice—as is now established—of matching poundage in England, which Derek Mackay has already spoken about.

Earlier, we discussed the £40 million retail levy, and the empty property rates relief of £18 million. I want also to discuss the assumptions about

buoyancy and appeal losses. I understand that £155 million is the component that has been assumed in the Government’s figures. In the early stages of a revaluation cycle such as the present one, is not it normal for there to be a number of appeals and for the Government to have to make assumptions about appeal losses? Over time, that works its way through the system, and we end up with a figure by the end of the period that can appear to be more stable. In the initial stages, the rate of increase in business rates might appear to be exaggerated because of initial assumptions about appeal losses, but over time things stabilise.

Professor Armstrong: There was an awful lot in that, but I will try to unpack what I can.

Paul Wheelhouse: I am asking whether it is normal to assume in a revaluation cycle that the business rates figure would initially be slightly depressed and that the figure would improve as appeals were resolved. Buoyancy also needs to be taken account of—we are coming out of a deep recession in the UK economy, so an assumption can be made about improved buoyancy and profitability of businesses in the future.

Professor Armstrong: We are coming out of the recession incredibly slowly and some commentators are talking about us going back into a recession. The issue is the certainty about the increase. One would expect some buoyancy in coming out of a recession, but we are in a deep recession that is nothing like the past three recessions in the 1970s, 80s and 90s.

The expected buoyancy is optimistic. Some change would be expected over the three years as appeals come through and some people’s increases might not be as large as the initial figures suggested, but we could find no evidence about the level of that or about the number of businesses that would likely be affected.

As for the inflation rate, you say that we are following the poundage rate in England, to which we are applying the RPI. The budget document says that the increase was unclear when that document was published, because the RPI in September had to be identified and the Government had to judge whether that would be applied. The budget document does not say that the RPI figure will definitely be applied, as is happening down south.

Scotland has not always followed what has happened in England; the question is whether it is right at this stage for Scotland to follow England on things such as this, because Scotland is not following England on every other aspect of the budget. We have the same poundage rate as England, but we have not always had that. Are we saying that we must, for whatever reason, follow England? If we are talking about jobs and

economic growth, businesses in the middle will face the increase—it will clearly not affect small businesses, which are benefiting from the small business bonus scheme.

We are talking about a significant increase above inflation—above the RPI and not the consumer prices index or the gross domestic product deflator. The GDP deflator has been used in the rest of the budget document to show whether we are receiving real-terms increases. Increases that are significantly above the RPI are being asked for.

Paul Wheelhouse: I say with respect that that is what I am getting at. Under the Government's assumptions, £280 million of the £493 million is purely from matching the English poundage rate, to which the Government committed in its manifesto. Part of the remainder—the £155 million to which I referred—is from assumptions about improved trading performance and the appeals issue that I discussed. That does not represent an increase in rates for existing occupiers of business properties. To describe that as a massive above-inflation increase in business rates for existing businesses, many of which—I presume—benefit from the small business bonus scheme, is misleading. I appreciate that presenting the information in that way might not have been your intention, but that is how the figures have been interpreted, which has caused much concern in the business community.

Professor Armstrong: The increase in the tax take from non-domestic rates is 22 per cent, which is significantly above RPI.

Paul Wheelhouse: Yes, but that is largely down to businesses' improved trading performance and the poundage rate increase—which I admit reflects inflation—but not to any one-off exceptional increase in business rates.

Can I ask a question on a slightly different matter, convener?

The Convener: I will ask a supplementary—Derek Mackay has a supplementary, too—because I would like clarification. The issue is key to the CPPR's report. It says that the increase will be 22 per cent, but surely the reality for existing businesses will be an increase of only 12 per cent. The income from rates might increase by 22 per cent, but that is predicated on achieving growth. The growth rate could be higher, which would mean that the increase would be higher than 22 per cent, or it could be lower. For existing businesses, the figure will be 12 per cent, if we accept the RPI.

I understand that, until 2007, the poundage rate here was 5p higher than that in England. The SNP Administration reduced the rate to match that in England, so that Scottish businesses could be

competitive. I would like clarification. For existing businesses, the increase will be not 22 per cent but 12 per cent. If the Scottish economy booms, income will grow accordingly; if that does not happen, the figure will reduce accordingly. Is that the case?

Professor Armstrong: I am simply reporting the analysis that we did, which showed that non-domestic rates will rise by 22 per cent. A proportion of that is a consequence of—

The Convener: Yes—but hold on a second. No individual business will have a 22 per cent increase, will it?

10:45

Professor Armstrong: The percentage rate is pegged at the English rate. That will be multiplied by the rateable value, which will generate businesses' non-domestic rates bills. Whether or not the economy grows will not affect businesses' ability to pay the bill, because it does not affect their rateable value, which will not change until such time as there is a revaluation. I struggle to understand the point that buoyancy in economic growth makes the increase okay, when in fact that does not generate additional income to fund individual businesses.

The Convener: No—but the point that I am trying to make is that it is not a 22 per cent impact on individual businesses and that it is a 22 per cent impact only if the growth assumptions are correct. If the increase is tied to RPI, as we have all established it will be, the increase for an individual business might be 12 per cent, if inflation runs at the predicted level. It is wholly misleading to suggest that any individual business might have a 22 per cent increase. Of course, that figure of 22 per cent includes not only growth assumptions, but the retail levy, which affects only a small minority of large businesses, and the changes to empty-property rates relief. That is the point that I am trying to clarify. I thought that it was pretty straightforward, but it does not seem to be coming through.

Professor Armstrong: You are saying that 12 per cent of the increase is a consequence of economic growth.

The Convener: No—12 per cent of that 22 per cent is a consequence of inflation. It is £280 million out of the £493 million predicted uplift in non-domestic rates on an annualised basis by 2014-15.

Professor Armstrong: So, 10 per cent is a consequence of economic growth.

The Convener: The 10 per cent increase is made up of economic growth at the predicted level, the changes to empty-property rates relief and the retail levy. The latter two amount to £58 million.

Professor Armstrong: So, the majority of that additional increase comes through economic growth.

The Convener: Yes. It is predicted to be about 7 per cent.

Professor Armstrong: We are suggesting two things. As a consequence of the required uplift, there must be more risk of not balancing the books in the overall Scottish Government budget than would otherwise be the case. When the March budget was announced, economic growth was expected to be substantially higher than now looks likely. I suspect that those are the figures that underpin the analysis that the Cabinet Secretary for Finance, Employment and Sustainable Growth has chosen. Therefore, the assumption about economic growth and the buoyancy effect must be dampened, all other things being equal.

The changes to empty property rates relief are a small proportion of the total, as far as I can make out from the numbers. Some businesses face RPI increases. We cannot say that it is just RPI when most businesses are struggling to push through any increases, let alone RPI-type increases. Further, the expectation is that RPI will rise. Therefore, the underlying increase to businesses will be substantially higher than it might have been, based on the OBR's figures from March. The impact on businesses at the margin must be significant, and there is an impact on the affordability or sustainability of the Scottish Government's budget—it must be riskier than would otherwise be the case, on the basis of some of the assumptions.

The Convener: Derek Mackay has a supplementary question, after which we will move on to Margaret McCulloch's questions.

Derek Mackay: We have probably covered my question, convener. I just wanted to extrapolate on the point that we are talking about tax take rather than tax rates. It is the overall tax take that is increasing and there is no policy shift that has created the consequence, other than the policy shifts on empty shops and the supermarket levy. The lion's share is an increase in tax take. It is reassuring that businesses will not continue to be given the impression that their tax rates are about to increase by the figure that has been quoted in the press. I appreciate that clarification.

I would like to ask about capital spend, but I will wait.

Margaret McCulloch (Central Scotland) (Lab): My question is for both witnesses. I declare an interest in that I had my own small business and I went through further and higher education. My question is linked to both.

I agree that there is concern for small and medium-sized businesses. It does not matter how small or large a rates increase is—it can put a really big burden on businesses. It could lead to them shutting up shop and to lots of people losing their jobs. The Government should invest in small and medium-sized employers and in the people we have, including students.

Is there scope for the Finance Committee to consider the implications of the cutbacks in the further education sector? Will you give examples of how the cuts will affect further education?

Professor Peat: In our paper, we note concern about the significant reductions in funding for further education. We also note that further education has an important role to play in lifelong learning, apprenticeships and skills training in general, which are important in the development of the Scottish economy. We further note that a significant portion of higher education qualifications are delivered through the further education sector.

There is a huge difficulty as to what to do with the responsibilities of the Scottish Further and Higher Education Funding Council. We will shortly have the report on governance in higher education and Russel Griggs's report on the further education sector; I understand that both are due before the end of the year. It will be important to consider those reports because it is desirable to consider governance across HE and FE in order to find ways in which one can deliver bigger bangs for the bucks, to use the jargon.

I understand the strong desire to continue the no-fees policy for Scottish students, and I am second to no one in considering higher education and its delivery to be important, but the choices are very difficult. The committee has emphasised the importance of preventative spend in the early years. Further education is also clearly important to the Scottish economy. The loss of opportunities for lifelong learning of different types will damage the career prospects of many people. It will also damage businesses in Scotland.

That is a classic example of choices having to be made. We argue that the choices should not be constrained by making some policies sacrosanct and saying that they can never be reassessed. We would like a proper examination of the future options for HE and FE. When the two new reports are published, that will be the time for the Scottish Government and the Scottish Parliament to reconsider policies.

What can be done to work further on a collegiate system across cities or locations in order to create a more efficient back office for the sector? The length of degrees needs to be reconsidered but so, too, does the way in which

students in different sectors are financed. I also argue that the way in which finance is structured creates a risk of perverse incentives to the HE sector, which may not always be to the benefit of Scottish students or, indeed, Scottish business. I cannot give specific examples of how FE students will suffer, but the settlement is not good for FE; it is poor. There was a much better than expected settlement for HE, which is excellent, but that does not mean that we have the balance right between the two or across education.

I would love to find ways in which more funding could be put into early years and FE as well as HE. When the governance review and the FE review are complete, that will be the time to look openly and across the piece at the way forward for the education sector, particularly FE and HE, in Scotland.

Professor Armstrong: With the changes in the funding of HE down south, the implications and the Barnett consequentials have a direct feed through to what becomes available for funding in Scotland. The decision to keep student fees out of the equation up here is clearly a political decision that the electorate have accepted. It therefore comes back to the difficult issue of how to balance where you put your scarce resources. I take on board Jeremy Peat's comments that reviews of post-16 education and the FE sector are continuing. I declare a potential interest in that I am chair of Enable Scotland and am acutely aware that the funding for FE colleges appears to be having a detrimental effect on the ability of people with learning disabilities to access post-school education. I think that that area will be looked at in the consultation on 16-to-19 education, which is out at the moment.

It is definitely not an easy issue to resolve. To my mind, it is about the impact on social inclusion as opposed to economic growth. Clearly there is an intention in the budget to maintain the skills development side of things and apprenticeships. The element that relates directly to jobs targets does not necessarily appear to be directly affected by what is being allocated to the FE sector. The root-and-branch review is essential, because I suspect that the cuts that some institutions are facing must make them unsustainable at this stage.

Margaret McCulloch: Thanks very much.

Paul Wheelhouse: I was interested in your comments on the college sector. I note that Professor Peat said that there is a much better than expected settlement for HE, which is excellent, but a comparatively poor settlement for FE. I suspect that none of us would want the funding squeeze on the FE sector that we are seeing. Given what you say, and just to

acknowledge that the HE settlement has been relatively good—

Professor Peat: Sorry. Do you mean relatively good compared to expectations?

Paul Wheelhouse: Yes.

Professor Peat: I do not think that anyone in the HE sector would say that the settlement was relatively good in absolute terms, given the environment in which they now sit.

Paul Wheelhouse: Our expectations have moved markedly over the past few months. I suspect that the percentage decrease in FE funding for the English college sector is more than 20 per cent. If that turns out to be the case, would you agree that the settlement in Scotland is comparatively better?

Professor Peat: I wonder whether that matters. We are now in a devolved Scotland as far as FE is concerned and we are looking at what is best for Scotland, the Scottish economy and Scottish society in relation to the choices that the Parliament and the Government make. I am not worried about the comparators with England in this area as much as about how the choices are being made about the allocation of scarce resources within Scotland in order to do the best thing for the future Scottish economy and the Scottish people. To me, that is the comparator that matters in all the areas where choices have been devolved to Scotland. I do not want to go back to comparisons with England, because I do not think they matter when it comes to whether the choices that are being made in Scotland are the right ones for Scotland.

Paul Wheelhouse: Under the current financial arrangements in the UK, with our devolved Parliament, we are influenced by the Barnett formula and Barnett consequentials, so changes in spending in England have an impact on spending in Scotland. The issue is not irrelevant.

Professor Peat: That is true at the absolute level, but the great advantage of the block settlement is that, having got a sum of funds allocated, it is then for the Scottish Government and the Scottish Parliament to determine how to make best use of those funds. With respect, if you fall back to comparisons with England on each item of the budget, you will fall into an error, because what matters within the devolved block settlement is how best use is made of the funds, given the Scottish context, the Scottish economy and the will of the Scottish people. That is the type of analysis that I am looking for, rather than comparisons with England on each item.

Paul Wheelhouse: Professor Armstrong, do you want to comment?

Professor Armstrong: What happens down south clearly does have a direct impact up here through Barnett consequentials, but there are certainly budget items down south that do not exist up here and we still spend money up here on some areas—most notably water—that mean that we have less money available for other budget items.

Paul Wheelhouse: I certainly take those points on board. The point that I am trying to make is that although we have a constrained financial situation, the Government has managed to arrive at a spending review that has us matching spending for higher education, or at least closing the gap that would otherwise have existed due to changes in the funding arrangements in England. We have a college sector settlement that, while it is in many ways less than what we had hoped to have, is comparatively stronger than that for the English sector. It could be argued that we are in a relatively better position than counterparts south of the border.

11:00

Professor Armstrong: HE and FE colleges down south also get the benefit of grants for student fees.

Professor Peat: I will make one more comment, which is that in the HE sector there is great interaction between the sectors in England, Scotland and other parts of the UK, because people make choices about where to go that are based on the costs and perceived benefits of the different forms of education. The FE sector in Scotland is far more self-contained in that people do not choose to go outwith or come into Scotland to anything like the same extent. That means that, whereas for HE it is necessary to look at what is happening in England in order to define the optimum policy for Scotland, in the FE sector it is much more straightforward to look at Scottish issues specifically and on their own.

Derek Mackay: I return to capital spending, which is clearly incredibly important and on which the Scottish Government has a distinct policy. The CPPR report questions the evidence on the impact of capital spend. Indeed, it suggests that there is not much evidence on that impact.

Professor Armstrong referred to shifting some resources from schools and hospital projects. My understanding is that the Southern general is the largest hospital project and that not to proceed with it would be catastrophic for not just health but financial reasons, because finance has already been committed to the project. I am therefore not sure about the advice on that.

As to whether there is evidence that the capital plan is working, is the evidence not that

unemployment in Scotland is lower, employment is higher and there is greater economic activity? The CPPR report suggested that we look at Northern Ireland, so I did. The figures for Northern Ireland show that unemployment is up by 7,000 over the year, whereas in Scotland unemployment is down by 33,000, so I am not sure why Northern Ireland is held up as the best example. Relatively, its figures in the last quarter are not good.

Professor Armstrong: We were not saying that Northern Ireland is an example to aspire to. What we flagged up in our report was that the robustness of the data on employment and output in Scotland—we have been saying this for some considerable time, if not years—is so unclear that to focus on a very short period of time is potentially misleading and that the data are likely to be revised at the next set of revisions, which happen relatively quickly. We produced a separate report that indicated quite substantial differences in output and employment between Scotland and the UK, which raises the question of what has been happening in the Scottish economy, because we cannot understand what the data are telling us.

What we were flagging up in our report was that to say strongly that the acceleration of the capital spend, at the time that we accelerated it, could be directly correlated with an impact on employment in Scotland is potentially misleading. All we were flagging up is that the data get revised so regularly—in fact, the UK data have just recently been revised—that to take a snapshot of the data and directly link that back to one policy initiative is potentially to leave yourself open to being discredited the next time round, because the data change.

Derek Mackay: I understand that it is very difficult to make a concrete link between a policy change and an output. I take that point entirely. I question, however, that there is a lack of evidence. The evidence that I have seen on the impact that investment in capital spend has had on construction workforce jobs suggests that there is some link, as Scotland is doing relatively better than the rest of the UK. The UK's annual change in the last year was a 2.4 per cent increase whereas Scotland saw a 13.6 per cent increase. It might not be conclusive, but it suggests that investment in capital is having a positive impact on construction jobs.

Professor Armstrong: In the period prior to the recessionary impact, the number of Scottish jobs in the construction sector plummeted, so we were starting from a relatively small base. We have no explanation for why they plummeted in the year before that for which you have just quoted figures, but they were down substantially compared with the UK. We were flagging up the fact that, depending on which period you choose, the

current certainty about the data is so questionable that it is difficult to say with certainty that a policy initiative of the type that we have just seen has had a direct effect.

Derek Mackay: But you would agree that a policy choice of investing in capital spend is, on the whole, wise.

Professor Armstrong: A policy choice on investment spend has definite benefits as long as it is not robbing Peter to pay Paul—if you are not taking from resource to capital, thereby losing resource jobs—and as long as it accelerates spending that directly affects Scottish jobs, creating Scottish investment. For example, building a bridge that involves significant amounts of internationally procured steel would have a different effect on employment and jobs than a hospital project in Glasgow might have. That is why we must look at the capital projects that we have on the books and think through their effect on the Scottish economy. We should ask whether they will lead to short-term employment and jobs or longer-term economic growth as a consequence of freeing up impediments and bottlenecks.

Derek Mackay: Thank you. My final question is whether that is plan MacC: do not proceed with the Forth crossing and invest that money elsewhere.

Professor Armstrong: The Forth crossing is happening and will happen.

Derek Mackay: That is another committed project, which brings me back to the point I made earlier that asking us to revisit projects to which finance is committed would have huge financial consequences.

Professor Armstrong: No. I was not suggesting that we revisit existing committed projects. I was suggesting that there is an investment pipeline for the investment capital spend predicated in the budget document, plus the anticipated use of non-profit-distributing models, plus TIF, plus the national housing trust that will fund projects that are not mentioned in the budget document but that are being taken forward by the Scottish Futures Trust and the investment board in the Scottish Government. A number of projects are not committed and are definitely worthy of reinvestigation and reassessment to see whether they are still worth while. I am not saying that we should take a project that is already in the stocks, with contractual commitments and stop doing it. That would be foolhardy.

Alex Johnstone (North East Scotland) (Con): I take the opportunity to congratulate both organisations on the quality of the submissions and the witnesses on their robust defence under severe cross-examination and to apologise for the

fact that I have not done more to support their position. In the circumstances, it is sometimes easier to attack such suggestions than it is to support them. I find myself agreeing, broadly, with the thrust of the submissions. We have not covered the matter I want to raise in any great detail, although Jeremy Peat mentioned it in his opening remarks. It is the question of broader policy formation and how decisions are made about how that applies to the budget. It seems that you have questioned the evidence base for some of the decisions that are being made and you have come up with some specific suggestions for alternative policies, but would it be fair to say that in this budget the pursuit of political objectives still seems to take precedence over pragmatic budget decisions in many cases?

Professor Peat: I will put it the other way around. I think that we are saying that we would like to see much more linkage between the proposals in the budget document, the national performance framework and the Government's economic strategy. If the links were clear between how the proposals related to the strategy document and the future expectations for performance in Scotland, it would be much easier to understand why particular proposals were made without risking the perception that politics were the driver rather than the welfare of Scotland. We seek those links in order to have a better understanding.

We certainly believe that there should be no dogmatic view that particular policies should remain in place, unless it can be demonstrated that they drive in the right direction as far as the strategy is concerned in these times of scarce resources.

I agree that far more articulation is needed around how the proposals and policies in the document relate to the strategy and to Scotland's future. However, I would stop short of saying that they are driven by political dogma. You, as a committee, and other people must examine and analyse them, and ensure that they stand up to scrutiny because—as we keep saying—resources are hugely scarce.

We discussed capital earlier. I want more capital investment in social and economic infrastructure, and I worry that the easiest thing to do at a time when resources are scarce is to cut capital projects rather than revenue projects. I want proper scrutiny to ensure that the right choices are made, and that must take place within Government as well as in this committee and outside the Parliament.

Rigorous scrutiny—really getting down to it and challenging even the most deeply held convictions about particular policies—has never been more desirable. Times are as tight as they ever have

been, and I fear that they could, if anything, get worse rather than better over the next two or three years. The Government faces a daunting challenge, and the only way to enhance the prospects of getting those decisions right is to use scrutiny to ensure that they are as open, objective and evidence based as possible.

Alex Johnstone: I have expressed the view in several debates in the Parliament that what John Swinney has done best, he has done when he is reacting to the financial constraints under which he has been placed. As such, he cannot take credit for it, given that he and his fellow ministers repeatedly express the view that if they had the money, they would spend it like water.

Our finance secretary continues to be more reactive than proactive. Do you have a view on whether the budget is reactive or proactive?

Professor Peat: Inevitably there are a lot of reactive elements in the budget, because the environment has been deteriorating and changing as Mr Swinney has been preparing it. No one can envy his task: it was horrendously difficult for him and for the Scottish Government given the challenging situation, so inevitably there is a degree of reactivity.

However, as I have said before, it is important to use the period leading up to the next budget and beyond to ensure that strategic thinking comes in, so that the Government is proactive in making choices and looks forward at all aspects.

There is a need for more reviews that get to the core of key issues; it worries me little whether those are carried out by parliamentary committees or external parties, or whether they take place within Government and include the publication of key documents. There is a need for strategic thinking on how the position on scarce resources relates to what is best for the Scottish economy and for Scottish society. All aspects should be open to such scrutiny.

To be proactive we need—as the word implies—to think ahead, and thinking ahead to what happens next time around should start now.

Alex Johnstone: I have sat with a group in the Parliament for a number of years that has proposed, for example, changes with regard to Scottish Water and different policies on prescription charges. Those proposals have been vociferously opposed—largely for political reasons, in my opinion—and even in the current situation, they continue to be rejected for policy or political reasons. Is it likely that the Government will be forced to address those areas of policy through financial constraints in subsequent years?

Professor Peat: I very much hope that the Government addresses those areas. I am not an

expert on the financing of Scottish Water, so I cannot tell you whether the existing options would deliver the Scottish Water that we all want at the same time as releasing funds.

However, given the sums that are involved, it would be remiss not to look at those options extremely carefully and see whether a compromise way forward is possible because of the scale.

11:15

You mention universal benefits. Professor David Bell did some excellent work on universality versus selectivity and pointed out that a number of the universal measures are regressive in their effect rather than progressive. The people who benefit disproportionately from them tend to be those from higher-income groups rather than those from lower-income groups. I therefore suggest that time is merited to revisit and reconsider universal benefits, to see whether they stand up to scrutiny. I do not want people to wait until they are forced to do that because the budget is 10 per cent lower than we now think that it will be; I would like that to be done openly and transparently over the coming months so that there can be an informed debate in the Parliament and elsewhere about the choices that should be being faced and whether funds can be released to other essential activities that are a high priority because of their impact on the Scottish economy and Scottish society in these difficult times.

Professor Armstrong: The pressure within the budget has been partly released this year and next year through the wage freeze, so there is a pent-up requirement for additional funding to address that. We also know that health has been partially ring fenced because of the demand that is coming because we are an ageing population and have expectations. Those two factors start to create a need for some budget items to be revisited in future years. I expect that we will want to see a wage increase of some sort and that the health service will have to deal with additional demand. Even in the later years of the current budget, more thinking will be required around what we can do to ensure that we meet those additional demands.

Alex Johnstone: We are faced with a choice between addressing these key issues now or allowing the cabinet secretary to wait three years until his hand is forced yet again. What would be the cost to the Scottish budget of delaying addressing these issues for three years? I know that we cannot put a figure on it, but can you talk in terms of an order of magnitude? What will be the cost to the Scottish budget if we simply allow the cabinet secretary to wait until he is pushed?

Professor Peat: I have not done the sums, and I could not do them while sitting here. Let me put it this way. There are significant elements of expenditure that could be open for scrutiny if you wanted to consider whether part or all of them could be released into other activities. The cost of not doing a lot of things that we are being forced not to do because of the budget stringency is significant in terms of both the welfare of people in Scotland and the prospects of the Scottish economy. We are talking about significant impacts, and the sooner that they can be objectively addressed, the better.

The Convener: We are running over time and I want to keep the last round of questions tight, so members will get only one question each.

Margaret McCulloch: Let us go back to the preventative spend that you talked about. You mentioned that the increase in business rates would affect every consumer and that the increase in the prices of tobacco and alcohol would be beneficial. I automatically thought of that as a great example of preventative spend, as it hopefully puts people off buying more cigarettes. How can we ensure that local authorities do not rebrand their existing preventative spend and the early intervention models that they are using just now in order to access the new funding for such initiatives? How should we measure the success of existing or new preventative spend on early intervention initiatives?

Professor Peat: I do not have a remit from the Royal Society of Edinburgh to comment on that. As you are aware, we recently had a seminar on the subject at the David Hume Institute and we had a session at the Scottish Parliament with Scotland's Future Forum. There is some very good documentation around, and the work that has been undertaken in this committee and elsewhere has made a major start. There are funds allocated to that work in the Scottish budget, but it is not clear where they are coming from and what they cover.

I accept your view that we must ensure that there is no fungibility of resources and that we are talking about extra funds. We must also ensure that there are targets for what is to be achieved and that we have measurable outcomes so that we can examine the impact. I do not think that any of us could look at the evidence on the impact of early neglect and doubt the importance of giving priority to spending on the early years. Whether it is done universally or selectively is another issue. There are arguments for universal access to pre-primary education from the age of two or whatever, but there are also arguments for focusing on those who are significantly at risk, and at times of stringency one has to consider that carefully. I support the availability of funds and I

support looking to ensure that additional money goes in, albeit that the choices will be difficult. However, it is critical to evaluate the spending by monitoring progress against measurable outcomes so that we know how effective the measures have been.

Professor Armstrong: Jeremy Peat's point about having targets and outcomes to measure against implies an element of ring fencing, which local government has argued strongly against. In the previous two settlements under the Scottish Government, a lack of ring fencing or significantly reduced ring fencing has been the name of the game. The current settlement around the special measures for non-domestic rates implies an element of ring fencing, although I do not know whether that is indeed the case. If funding is not ring fenced, with identified outcomes, it becomes difficult not to run the risk of the fungibility of existing spend versus new spend. It comes down to how the funding is given and on what basis it is expected to be monitored.

John Mason: I was interested to see how enthusiastic Alex Johnstone, representing the Conservatives, is about both your reports. We have looked at a lot of detail on non-domestic rates, Scottish Water and further and higher education. To try to pack it all together, is it your view that John Swinney's budget is too left wing and you would both prefer it to be a bit more right wing?

Professor Peat: The simple answer is no. We have a difficulty in that the problems that Scotland faces relate both to Scottish consumers and households and to Scottish business. We all wish to see measures that support disadvantaged households and those who are facing problems. We wish to keep people in employment and keep them healthy at a time when unemployment is starting to rise and might rise further and the problems are extreme. Real incomes are declining and that is likely to continue, so we want an emphasis on support for households, but we must also support household consumption so that there is some dynamism in the economy.

At the same time, Scottish businesses are suffering from the lack of domestic and international demand and we want to ensure that they are not disadvantaged. We want to provide targeted incentives for them to invest more and venture into the markets that exist and to be high-value-added, competitive businesses in those markets. That is why we are looking to consider targeted means of assisting businesses as well as ensuring that we do not have an excessive, unnecessary number of business failures during this difficult period.

The challenge that we face is to cope with the problems that households and communities are

facing at the same time as trying to provide incentives to business to be productive for the sake of Scotland's longer-term welfare. I do not see it as left wing or right wing. It is a question of dealing with the twin problems at this worst of all times for the Scottish economy. That is why I argue that it is a time when selectivity might be desirable over universality. That might be the way in which to release funds to deal with both sets of problems.

Professor Armstrong: I agree with Jeremy Peat. This is not about right or left. The fact is that there are consumer and business demands on the economy and the budget is declining. Whichever way we look at it, difficult choices have to be made but the more you talk about favouring one group over another, the more people want to stick a tag on you saying that you favour left-wing or right-wing measures.

The Scottish Government's long-term objective is sustainable economic growth, which is all about competitiveness and productivity. Indeed, the budget document clearly indicates the need to maintain that growth. The minute you start to say that the current budget is not enough or that it might reduce employment opportunities at the expense of maintaining income for individuals and households, you automatically get tagged. The fact is that if we want long-term economic growth and to ensure that our Scottish businesses are competitive and that, as a result, there is some mechanism for maintaining and growing employment, we will have to make difficult decisions about whether we can afford every universal benefit or the level of service delivery that we have had in the past. We might have to ask individuals to be prepared to pay more or to accept lower levels or a lower quality of service.

This has not been an easy budget. Whoever was going to be in John Swinney's seat was going to have to face similar problems. Last year's budget was a clear signal that things were going to be difficult; after all, in January, we got the figures and indicative measures for only one year. During the election campaign, two of the four parties indicated in their manifestos that they would seek to release additional funding through either student fees or Scottish Water funds and two said that they would make significant additional efficiency savings. Substantial public sector reform is one way of trying to do more for less.

It has not been easy; it is not easy; and it will not get any easier. As a result, this year's budget scrutiny should be about examining whether, if the objective is long-term economic growth and maintaining aggregate demand, all those budget lines are absolutely essential and represent the best use of scarce resources to achieve those short and long-term aims.

Paul Wheelhouse: I will be as brief as I can, convener.

Despite the banter that we have had during the session, I thank you for your very interesting evidence. You have acknowledged—and we certainly agree—that resources are scarce. John Swinney has identified the marked shift towards preventative spending and—in response to Professor Peat's point—the shift from revenue to capital. A number of statements in your submissions suggest a lack of evidence-based strategy but this committee, our predecessor committee and Scotland's Future Forum have heard a considerable amount of evidence recommending and commending the preventative spending approach and spending to save to reduce future demand on public services and the number of negative social outcomes. Do you welcome that shift in the budget that is before us?

Professor Armstrong: As I said, any politician who is prepared right now to fund initiatives the outcomes of which will not be seen for 10 or 15 years, if not generations, is making a brave decision. I imagine that most civil servants—and I see Jeremy Peat nodding at this—would say, "Brave decision, minister," because they know that they could be funding something nearer term that provides benefits much more quickly. Given the significant demand issue that we know we are going to have to face, the preventative spending approach is definitely a sensible move. The question whether it is enough is for you to ask—dare I say that it is £500 million over three years?

Paul Wheelhouse: Would you advocate spending more?

11:30

Professor Armstrong: If we are serious about a step change in preventative spend, more might need to be put into it. Again, though, it is a difficult balance to strike.

Professor Peat: I do not disagree with any of that. You are facing a catch-22 situation: even though now is the time to put money into preventative spend, it is also the most difficult time to choose to do so because resources are so scarce and the benefits will not flow through for several years. Moreover, some of those benefits will not be to the budget; they will be to others, to individuals and to their welfare. It is certainly a brave decision. I am sure that it was correct to change the emphasis but the timing causes major problems, adds to the pressure to look at other means of freeing up resources, makes it even more important to look at every other programme to see whether the priorities across the piece are right and adds to the importance of the work of this and other committees.

The Convener: I usually finish off these sessions with a plethora of questions but, given the time, I will ask only one.

On page 11 of its briefing on the budget, the CPPR says:

"It has been argued by the Scottish Government that their Scottish Recovery Plan has resulted in an improved economic performance versus that of the UK as a whole and that this gives support to a policy of increased capital investment in the short term at least.

This view is largely based on Scotland's relatively good employment performance over the past year."

Is that "relatively good employment performance" not an endorsement of the strategy?

Professor Armstrong: As I said, ascribing long-term sustainable benefits to employment or levels of GDP from one initiative puts too much emphasis or weight on the quality of the data available. One would have thought that any acceleration of spending that increased aggregate demand must have an effect on not output but employment. Whether that is sustainable depends on whether it has also generated increased output; after all, if it has not, it has a productivity problem, which makes it less sustainable. All we are flagging up in our paper is that, given the quality of the data, basing such statements on one year's set is, as I said earlier, opening yourself up to being found wanting when the data are revised.

The Convener: I understand that, but what do you think has been the reason for Scotland's relatively better performance, particularly with regard to employment, compared with the UK as a whole?

Professor Armstrong: We have asked what has underpinned what are, in effect, substantially different revisions and it appears that public services make up the composition of that employment performance. As such, it is an incredibly strange set of statistics to be used as justification for the benefits, impact or success of the policy initiative.

The Convener: I do not want to go on about this, because I would really like to close the session, but I understand that, over the past year, private sector employment in Scotland has grown by 57,200 while public sector employment has fallen by 25,000. Those figures suggest that most of the growth has occurred in the private sector.

Professor Armstrong: Again, you need to examine the composition of the employment figures—and the composition of those particular figures looks strange. That brings us back to the question whether the data are sufficiently robust to be able to make such strong, categorical statements. It is not that people are saying that the trend might be looking good or that evidence in that respect is emerging—economists are very

comfortable with such statements—but the fact is that, given the quality of the data, we have to question the strength of the statement about the initiative's success.

The Convener: Do you wish to add anything, Professor Peat?

Professor Peat: I totally agree with the need to be sceptical about any causal links; indeed, over the past significant number of years, I have learned to be very cautious of econometric and related evidence that tries to draw them. In your circumstances, if you want good advice from someone who is well informed, I would ask your adviser, David Bell. He is your man. Instead of speaking from limited knowledge, I suggest that you go to David, who will give you the best advice that can be given.

The Convener: Do not worry—we will speak to him.

I thank Professors Armstrong and Peat for attending the meeting and answering our questions. It is very much appreciated. I suspend the meeting for five minutes to allow a natural break and the seating to be rearranged for our next evidence session.

11:34

Meeting suspended.

11:40

On resuming—

The Convener: Under the next item on the agenda, we will take more evidence on the draft budget and spending review. The main purpose of this session will be to consider how preventative spending features in the draft budget and spending review. As part of the scrutiny of the documents, the committee has identified a number of key themes in the submissions that it received in response to a call for evidence on preventative spending that was issued before the draft budget was published. Those themes are: national leadership; prioritisation of resources; collaborative working; financial challenges; and the national performance framework and measuring outcomes

I welcome the witnesses. David Alston is from Highland Council; Gwen Barker is here on behalf of East Ayrshire community planning partnership; George Black is here on behalf of Glasgow CPP; Marita Brack is from NHS Education for Scotland; Rachel Cackett is from the Royal College of Nursing Scotland; John Dickie is from the Child Poverty Action Group in Scotland; and Aubrey Fawcett is here on behalf of Inverclyde alliance CPP.

As the committee is taking evidence in a round-table format, there will be no opening statements and we will proceed straight to questions.

I will kick off by asking Marita Brack a question that is based on her submission. Subsequently, everyone should just let me know if they wish to ask a question. We will start on the subject of national leadership, and will spend 10 or 15 minutes on each of the themes that I mentioned.

Marita, your submission says that NHS Education for Scotland saw a role for the Scottish Government in developing national interventions that could be implemented locally, and pointed to the family-nurse partnership as a highly successful example of the approach. Will you elaborate on that and on where the approach should go from here?

Marita Brack (NHS Education for Scotland): The success of the approach has been due to the fact that the Government has really got behind a strongly evidence-based programme. My area of expertise is around parenting. Although there is a great deal of excellent parenting work going on across Scotland, it is quite diverse and the vast majority of it is not evidence based. The family-nurse partnership's success—which the Government can be proud of—is based on the fact that the Government has chosen to pursue an intervention that is renowned throughout the world, has an extremely impressive evidence base and targets the vulnerable population of teenage first-time mothers.

The central leadership that the Government has provided has been useful. The partnership has been trialled in Edinburgh and Tayside, but those areas have had the support of the Government in doing that. In some ways, that has mirrored what is going on in England, where the family-nurse partnership is a national intervention that is gradually being rolled out—that is the plan in Scotland, too.

The Government has been convinced that the approach works. It is an intensive intervention but the Government has put into place the support and infrastructure to ensure that it is delivered effectively. The Scottish Government has a long history of putting funding into workforce development and training around evidence-based programmes but, often, we end up operating under a bit of a train-and-hope approach—people are sent off on training but, because there is no strong, central leadership or infrastructure around that, there is very little delivery of the intervention on the ground, so the intervention does not change the future of children and families in Scotland.

The commitment to the family-nurse partnership programme and the way that it has been set up

has signalled a move away from an approach based on the attitude of just hoping that something goes ahead and has ensured that support is in place so that the investment is followed through properly.

11:45

Derek Mackay: That is a very good point that leads into my question, which relates to health and the family-nurse partnership and the requirement for national leadership. I recently discussed the family-nurse partnership with a very senior figure in a large health provider not too far away from my constituency. That very senior figure said, "I am not convinced by the evidence base," yet NHS Education for Scotland is saying that there is a wonderful evidence base for the family-nurse partnership. How do we instil leadership across Scotland so that we can say, "Here is the evidence," and make the family-nurse partnership happen?

That leads on to the issue of community planning, which I suspect we will come back to. What kind of national leadership are we talking about? Are we talking about encouragement, coercion or compulsion?

The Convener: I ask John Mason to come in.

John Mason: Do you want my question as well?

The Convener: It does not have to be a question; it can be a comment.

John Mason: It ties in with what Derek Mackay just said. Paragraph 14 in the summary of evidence mentions that Grampian Police and Children in Scotland both referred to incentives for meeting targets, performing well and moving ahead on preventative spending—I presume that there would be punishments on the opposite side, too. I want some ideas on how that approach could work in practice.

Marita Brack: If we are successfully to change the health outcomes for children and families in Scotland, it is incredibly important that there is a better and more coherent understanding of what we mean by evidence-based practice. As a psychologist by background, that is something that I am quite finicky about.

Children's health is not always delivered by psychologists. Although things such as the family-nurse partnership, the incredible years programme and triple P—the positive parenting programme—are psychological interventions, a great number of the practitioners who deliver them are not psychologically trained, so people's understanding of the evidence might vary.

It is interesting that someone has stated that there is no good evidence base for the family-nurse partnership, because there is an exceptionally good evidence base for a very specific population. There are workforce training issues around people having a more coherent view and sharing the same understanding. When we talk about an evidence base, we mean something that has been empirically proven. When I say that something is evidence based, I do not mean that it has had consumer feedback or that a service evaluation has been done on it. There have been multiple randomised controlled trials of the family-nurse partnership and it has been held up to the highest level of scrutiny, as have other programmes.

NHS Education for Scotland wants a push towards evidence-based programmes, but we need to bring the children's workforce along with us, so that we do not have discussions with people in which they say, "Actually, that does not have a good evidence base after all."

Derek Mackay: The second part of the conversation was quite telling. The comment was made that, "Ah well, even if it has an evidence base, who will pay for it after the change fund money runs out?" That, for me, is the essence of the problem. There is no clear focus on what the programme would deliver. I am left wondering how we make it happen. What kind of compulsion is required if we have not convinced some of those at the very top?

Marita Brack: We think that it is important to recognise that this is not just about decisions on what we need to invest in. The family-nurse partnership is targeting teenage mothers—an incredibly vulnerable population in terms of their own outcomes and the outcomes for their children. We want those mothers and their children to be given the best treatment that they can get. A vast amount of parenting work goes on, and a great deal of support is provided. The investment in the most expensive resource—the human resource of staff time—has already been made.

One of the decisions that it is critical to make is about how we can support people on what they need to disinvest in. It is not that we are asking people to do something completely different. It is about a midwife or a health visitor offering to a teenage or a vulnerable mother something that, if it is delivered with fidelity, in the way in which the programme has been constructed by David Olds and not by offering lots of non-evidence-based support, will—we can have every faith—produce good outcomes for those mothers in Scotland. It is about us ensuring that people invest in pursuing evidence-based programmes rather than continuing with business as usual.

At times of reduced budgets, people hunker down and keep doing what they have always done. That is just as heavy in human resource terms as it would be if they were doing an evidence-based programme. Huge shifts are taking place, but although more people are coming on board with evidence-based programmes, people are still not prioritising the delivery of evidence-based work and stopping the delivery of non-evidence-based work. Even though it might be something that they like or something that families report that they enjoy, if it does not have an evidence base, it should not be prioritised in the present stringent times.

Rachel Cackett (Royal College of Nursing Scotland): To back up some of what has just been said, the initial evaluations from the family-nurse partnership pilot in Scotland, which is at stage 1, have been very positive, but there is more work to do to follow that through in a Scottish context. The English pilots, which are further forward than we are in Scotland, have also produced very positive results further down the line.

The work that is done in the family-nurse partnership programme here is slightly different from the work that has been done in the States, in that it is done on top of the universal health visiting service, which does not exist in the States in the same way. It is important that we look at the fact that, as Marita Brack said, the family-nurse partnership is a highly specific intervention with teenage first-time mothers, and vulnerable mothers in particular.

Beyond that, there is also a need, if we are looking at early years preventative spend, to ensure that we maintain investment in other areas of universal services and the provision of additional targeted services for those families who may not fall within the scope of the very strict licence arrangements of the family-nurse partnership but who may also be living chaotic lifestyles and have particularly complex needs, and who may still require the services of health visitors to ensure that children in those circumstances have the best possible start in life.

Looking at the early evaluation of the family-nurse partnership pilot in Scotland, when it comes to why the nurses and young mothers who have been involved in it have found it so positive, it is telling that the case loads have been very small, and there has been extremely high-quality and very intensive training, both of which come at a cost. The average health visitor will not be running a small case load of 25 so, as we think about what other areas we want to prioritise those very early years interventions in, it is important, from a front-loading point of view, to think about what the investment requirements are to ensure that the

staff whom we already have on the books can deliver those highly specific interventions beyond the family-nurse partnership programme.

Paul Wheelhouse: On a slightly separate matter, I have read—I apologise, but I have not brought the submission with me—that East Ayrshire Council has made great strides on childhood obesity. Could we hear from Gwen Barker on the measures that it has taken? From my experience of spending a day with a health practice in the Scottish Borders, I know from the medical professionals there that increasing childhood obesity is a significant problem. Are there any messages for the preventative spending agenda as regards how that work can be implemented and rolled out nationally?

Gwen Barker (East Ayrshire Community Planning Partnership): I will pick up on Marita Brack's point and on the national leadership agenda. Some direction from the Scottish Government is welcome, but it is important to remember that there is a local context to everything. Direction needs to be about the outcomes that we want to achieve.

We have been doing work on the MEND—mind, exercise, nutrition, do it!—programme, which is probably the kind of evidence-based programme that the committee is talking about. It is an evidence-based programme from down south and from the United States and is about working with vulnerable families that have obesity and health-related issues. It is not a diet programme, but a life change programme.

The numbers are quite small, but we have now worked with more than 50 families across East Ayrshire and we already see increased weight reduction and are already getting feedback about increased attention at school. A university down south has been conducting an evaluation. One really positive outcome that we are beginning to see is that young people who have participated in the scheme and who, a year ago, would probably not have gone out at night and would even have had difficulties going to school are now beginning to reinvest in their local community. Their parents are becoming volunteers in the local community and they are beginning to feel that they have the confidence to lead and become active citizens in their sports clubs, for example—things that they would never have dreamt about before.

The Scottish Government announced the results of the obesity survey yesterday. The horrific figures that obesity could potentially cost us show that such small-scale interventions are really important.

I will make another point about the prescription of national approaches. Some years ago, we had a very successful local recreation partnership

project. It was delivered through social inclusion partnership funding and was rolled out across all our primary schools. The University of Stirling did some very detailed research on it. We could evidence that our primary school children were twice as active as primary school children in the rest of Scotland and had good rates of health. We were beginning to see good-quality outcomes for our young people, but then the Scottish Government decided on the active schools programme and, all of a sudden, we lost the recreation partnership project because it duplicated that existing resource.

I do not know much about the family-nurse partnership, but we are doing a lot with the Solihull approach locally to support parents. We welcome direction from the Scottish Government on outcomes, and we need to ensure that our approaches are evidence based and that we take good practice from wherever it is found and think about how we can apply it locally. However, sometimes we need local flexibility, not just a prescriptive programme, because we can lose a lot of training, resource and investment, which is not helpful.

We have a lot of evidence that the MEND programme, which is in its early days, is really beginning to make a significant improvement in the lives of young people. If we can get more young people through that programme, our obesity rates will come down and that will have an effect on our colleagues in the national health service. The chief medical officer, Sir Harry Burns, is keen on the programme and interested in coming down to do some additional research.

The Convener: We will move on to the prioritisation of resources, because we have quite a lot to get through.

In its submission, the Royal College of Nursing says:

"National prioritisation of ever-more limited public funds, when public expectations and demands of services are running high, is never going to be an easy or comfortable activity for any chief executive, politician or, indeed, trade union."

Will you comment on that?

Rachel Cackett: The two witnesses on the first panel spoke extensively about prioritisation. I agree with them that we are in a tight position and there is no doubt that hard decisions will need to be made.

Another point in our submission that is linked to the issue of national leadership is that what seems to be a cross-party commitment to preventative spend and what that might mean for investment will have to be matched by a cross-party approach to what we will not spend on.

12:00

One issue that we are concerned about in the preventative spend agenda picks up on something that Campbell Christie mentioned in his commission's report and which he called failure demand. From my point of view of working in health we have a fairly poor health record in Scotland in some areas and many people have not yet benefited from the investment that everyone now wants to put into prevention. If we are to use the limited resources that we have to focus on prevention, we risk taking funding away from the people who currently require input from health and social care services and beyond.

Our question remains: where will the money come from? Some resources are coming through the change fund for older people's services, and the public health levy is being introduced—there has already been robust debate on that. The change fund is welcome. We are in its first year, but it is good to see direction coming from the centre to try to kick-start new approaches. However, the fund is in the region of 2 or 3 per cent of what is spent overall in Scotland on investment in older people. The early analysis is that we do not yet see, through the change fund approach, a shift away from institutional care and to community care.

There is a lot to be done with not much money. Therefore, some difficult decisions will have to be discussed openly, involving all the partners, whether the public, trade unions and staff, politicians or employers. Those decisions have to be made, and that must be done on the basis of transparent and clear information so that we can all engage transparently and honestly. That takes us back to some of the discussions that the committee had earlier.

The Convener: I will bring in John Dickie. We use surnames for people who are called John in this committee, because we have two Johns on the committee.

John Dickie (Child Poverty Action Group in Scotland): The issue of the prioritisation of resources links back to national leadership. Our concern is about how we ensure that the Scottish budget contributes to supporting the Scottish Government's child poverty strategy and the overall ambition of reducing the number of children who live in poverty. That poverty underpins many of the other more acute social problems and issues that people face.

From that point of view, it is a bit disappointing that there is no explicit proofing of the Scottish budget or recognition, description or explanation of how the budget will contribute to reducing child poverty or support the child poverty strategy. Although we welcome the focus on early

intervention and other elements of the budget, we need an underpinning that sets out at national level how the budget will contribute to reducing child poverty. The Scottish Government can demonstrate leadership by explaining, flagging up and setting out how the budget will contribute to reducing child poverty. That would then act as a driver and as a support for local authorities, health boards and others, which will then have to think through how their budgets can contribute to reducing child poverty.

To add to some of our comments about specific interventions such as parenting programmes, we should consider the way in which poverty impacts on children and how we can prevent the particularly damaging impacts of poverty. However, we should also look beyond that and consider how we prevent poverty in the first place and ensure that families have the incomes that they need to support their children and can access the support that health and education services and others provide.

An interesting example of health and other services working together is the healthier, wealthier children project in Glasgow, which links health visitors and midwives with money advice, financial support and welfare rights advice to ensure that families are supported to access the information that they need to boost their incomes. That is an important factor in supporting such families more generally.

There was a range of issues in that. I picked up on the national prioritisation issue and on the issue of leadership.

Alex Johnstone: I have a general question that might raise some answers. If we are looking at prioritising resources, taking into account the need for up-front funding for preventative spend—which, as Rachel Cackett rightly says, has broad cross-party support—are we talking about reassessing our priorities within the health budget? Are we talking about blurring the distinctions between the health budget and other budgets that are currently the responsibility of local government, such as the social work budget, or are we looking to bring in further resource that might be freed up through some of the more radical things that we heard about from our earlier witnesses? I want to get an impression, from our witnesses and perhaps from some members, of whether we are talking about retaining our silos, bursting out of our silos and making people work together or finding more money elsewhere and bringing it in for that purpose.

The Convener: I would love to answer that, but I am not going to do so.

Councillor David Alston (Highland Council): That is a good lead-in to what I wanted to say

anyway. The change funds are welcome, but the kind of preventative spend that is needed means moving money between budgets. It is not just about moving money within health or within local authorities; there are big areas in which the trick must be to get the money across the health and local authority budgets.

In Highland, we have a good track record of joint working, but joint working is tortuous. There are two organisations and until there are single managers with budgets, things constantly go from the top to the bottom or across at different places. For instance, if an elderly patient sees their general practitioner and it is clear that they need more home care, until there is a single budget the money will not work as productively as it could.

Our solution—we are not saying that it is the only solution—is to transfer our adult social care budget to the health board. We will retain responsibility for that budget but we will commission the service. There will then be one budget, managed by the health board, covering both health and adult social care expenditure. With early years services, it is the other way round—we are working towards the NHS transferring its early years health budget, which will be managed as part of one budget. If, for example, on the basis of the evidence, it is judged that more family nurses or more health visitors are needed, we can at least consider the possibility of transferring money to that from early years spend in the local authority or from other parts of the local authority's education budget.

Those will not be easy decisions, but at least the mechanism will exist and if people are prepared to show leadership, at both national and local levels, we will have created a way of delivering and making the money work productively.

George Black (Glasgow Community Planning Partnership): It will be a relatively straightforward process for any organisation working in isolation, looking at its own services, to agree priorities, and the sharper focus on prioritisation will help a move towards early intervention. The greater difficulty for community planning partnerships will be in sitting around the table and agreeing shared priorities between different organisations, including the council, the health service, the police, the fire service, the voluntary sector and the private sector.

I will give you an example. Last year, in Glasgow, we had a fairly heavy debate around intervention. There was widespread support for early intervention but there was less support for early years intervention because it did not impact equally on all the partners around the table. Early years intervention has a part to play, but a number of partners wanted to focus more on that, and in partnership working you have to take everybody

along with you. That is not a challenge that cannot be overcome, but it is where the effort must be made in the period ahead.

Paul Wheelhouse: I have a question on a linked matter, but it does not have to be answered by George Black.

A number of submissions state that there is a lack of indicators for measuring the outcomes in relation to early years. John Dickie may want to comment, given that the Child Poverty Action Group submission makes reference to the point. Do you have in mind any particular measures that we should take on board?

The Convener: We will come on to measuring outcomes later, Paul.

Paul Wheelhouse: I apologise.

Derek Mackay: I want to ask specifically about George Black's point on shared responsibility and partnership working when all the partners come together at a community plan level. The Christie commission recommendation for progress is to give a statutory status to community planning partnerships, with the lead officer given the duty for being responsible and accountable for all the organisations within the partnership. I understand that that would make you the head, George, including for the health improvement, efficiency, access and treatment—HEAT—targets, as well as the local government targets. Do you think that that is a constructive way forward to achieve progress and remove the boundaries that you have described?

George Black: I do not think that it is helpful to bring the community planning partnership down to the responsibility of one partner, but I think that it would be helpful if everybody around the table in a CPP had an overriding responsibility to the greater good of the public sector rather than to the services for which they have a direct responsibility.

Derek Mackay: I will take the argument a wee bit further, as there is something in it. If, for example, six people are responsible, they can all point five different ways. If one person is responsible, there is clear accountability, responsibility and leadership. I was a community plan leadership group leader when I was leader of the council, and I do not see a problem with the absolute leadership.

The Convener: People in absolute leadership positions rarely do. *[Laughter.]*

Derek Mackay: Absolute leadership and absolute power sound good for any politician.

I want to probe a wee bit further. We have shared ownership at the moment, and we have not made nearly enough progress. How do we make

somebody responsible for making things happen locally?

George Black: There is a difference between the executive and political levels. I chair the executive group of fellow chief executives, but leadership would have to start with the political level as I report to the leader of the council. If the leader of the council was responsible for the community planning partnership, it follows that I would report to them. I would see it as odd if I had responsibility for the whole of the community planning partnership but the person who had direct line responsibility did not. There would be a potential mismatch.

Marita Brack: I want to follow up on David Alston's point on collaborative working. In NHS Education for Scotland, one of our big priorities is the progress of evidence-based parenting programmes for the prevention of conduct disorders among pre-school children. Parenting is receiving increased attention not just in the family-nurse partnership but in the triple P, which has been extensively rolled out in Glasgow, and in the incredible years programme, under which a lot of work is happening in Lothian and Ayrshire and some work in Glasgow.

The key to success of any parenting intervention is collaborative working. Parenting does not sit solely in health; it ranges across the sectors. I know that Glasgow has put a great deal of effort into ensuring that there has been a collaborative venture, and the third sector is an important part of that. I guess that it is difficult for collaborative working to happen when budgets, for example, are in silos, and we would support any work to free things up and make progress in that domain.

On the prioritisation, difficult decisions have to be made. Our priority would be that, first and foremost, as much evidence-based work is taking place as possible and that, among the evidence-based programmes across the country, priority is given to those that have been shown to be cost effective. Not all evidence-based programmes have such an empirical evidence base.

John Mason: I want to follow up on what George Black said about giving everybody a wider public duty and getting people thinking in a wider sense. I find that concept attractive. Does it therefore follow that governance should be more relaxed? If a few million pounds are washing around between the health service, the local authority and the police, should we be more relaxed about that than we have been in the past?

12:15

George Black: The point that I am trying to make about an overriding duty is that partnership or joint working can be hard because we are trying

to make different organisations move in one direction. If everyone has a responsibility to stay at the table and make it work, that can be helpful; walking away from the table is not an option. For example, in local government, each local authority has a statutory duty to get best value. It could be argued that we do not need such a statutory duty because the local authority should be doing that in any case, but having the statutory duty means that the requirement is at the front of people's minds. If we are trying to achieve a switch from mainstream to preventative expenditure, it would help if it was clear to everyone round the table that they have a responsibility to make that work and that it is not an option for them to say that, because preventative spending will not benefit them in the short term, it is not relevant to them at this time.

John Mason: If there are several budgets round the table, I presume that the cost in one budget might lead to a saving in another.

George Black: That is right. For example, a lot of the effort towards reducing reoffending will not be made in the police budget, but the ultimate benefit could be to the police budget.

Aubrey Fawcett (Inverclyde Alliance Community Planning Partnership): I have had experience of a number of CPPs. The CPP model is too loose; our submission suggests that it is a virtual partnership. That certainly needs to be looked at.

Enforcing a statutory responsibility on one party would have implications. You can imagine George Black saying on behalf of the CPP that it will go down one particular route and four or five other partners going down another route. You can then imagine George saying that, as the leader is in charge and he is with him, the other partners have to follow him. I can see issues arising with that.

If we are to move forward with CPPs, the Parliament and the Scottish Government have a role to play at national leadership level in setting the parameters. If local authorities, for example, then have the role forced upon them, they will be able to tell their colleagues in other public bodies what has been handed down from above.

I noticed that Derek Mackay had a number of variations to his direction on taking overall control. He started out with co-operation, coercion and compulsion, and then just jumped straight to compulsion. Trying to find a happy medium is the right way forward, but we must work out where that happy medium is and that is the challenge for the Scottish Government and the Parliament.

My view is that the existing CPP model needs to be worked on.

Gwen Barker: The role of local authorities is to lead and facilitate community planning. In East

Ayrshire, our community plan is our sovereign planning document and all partners have signed up to it. It is the council's corporate plan. As a partnership, we are up for taking some really difficult decisions about the prioritisation of future budgets and doing that with the local community.

Last year, as part of a review of the community plan, which we do every four years, we took some quite difficult decisions to shift the focus of our activity for the next four years to free up some additional resources to go into the prevention agenda. We are considering doing a detailed study on how we continue to treat people who misuse alcohol and drugs, how we move them from treatment to recovery, and how alcohol and drugs misuse impacts on universal services. We will then think about how to free up resources for the prevention agenda.

If partnerships already deliver, and if they are committed to that delivery and to prioritisation for the future and the national outcomes, anything that strengthens that will be of assistance.

Margaret McCulloch: I keep hearing about preventative spend and early intervention. My concern is that everybody will just keep talking about that and that nothing will happen. I wonder about an idea—I do not know whether it is radical. If money for preventative spend and early intervention was taken from organisations annually, put into a pot called “preventative spend” and given to CPPs, which were told, “Right—that’s the money; now you’ve got to spend it,” would that work? Would that be too extreme or impractical?

The response is silence.

The Convener: Rachel Cackett wanted to speak, but not necessarily on that point. I am not asking her to answer.

Rachel Cackett: I will pick up something that Derek Mackay said, if that is okay.

The Convener: Absolutely—feel free to do so.

Rachel Cackett: I will also pick up how Aubrey Fawcett described what Derek Mackay said, so if that description was wrong, respond to me.

One of our concerns is about the increasing focus on structural change to bring about the desired improved outcomes for people on the ground and to increase preventative spend. If that structural change sounds like coercion to get people to do something that they are not doing, it risks ignoring the fact that partnerships involve people—people who are there to do the very best that they can do for and with the people whom they work with.

We have recently done work that involved talking to nurses who work in incredibly well-functioning integrated teams. Integration can

mean many things to many people. Some such teams are moving towards pooled budgets and some are not.

Those nurses told us that what made those arrangements work at the front line was not people such as me making policy at a desk, but good relationships between the people who were doing things. Developing that can take time. Some nurses said that it took quite a lot of time to reach that point. Understanding was required to reach a point at which negotiation on local priorities could come with dissent, which was expressed respectfully, and at which a middle ground could be found.

My concern is that, the more we take a helicopter view down and look at structures, the more we could start to forget that we are talking—in exactly the same way as we talk about outcomes for our service users and patients—about people who deliver the services, who must get on well and have respect. I make a plea for us to think even more creatively about how we proceed.

Derek Mackay: I think that we all agree with that. Structural change is not the answer, but when relationships and leadership are not there, something needs to be done. That is why the Christie commission concluded that a statutory duty might well be necessary.

Aubrey Fawcett: I will pick up Margaret McCulloch’s question on whether taking away money and locating it with a CPP would work. One issue is that CPPs must work with their partners’ money; CPPs themselves do not have money.

I spent a few years in North Tyneside Council down in England. Across England—or certainly in several areas—stretch targets were introduced and money was provided to CPPs. A bag of money was available. If councils and partners—the police, the fire service and so forth—could come together and provide some of their own money, that additional money would be available to the partners as the CPP, if certain stretch targets were hit. That system worked. It started to bring the partners to the table, because they knew that a benefit would accrue. It meant that partners worked together probably a wee bit more than we have experienced across the board—I have been in several CPPs in Scotland.

The approach in England was proactive. It was a form of coercion but, in some cases, that is no bad thing. That system certainly worked.

John Mason: I will comment on Rachel Cackett’s point. I certainly agree with having good relationships and I agree that working on them takes time, but some of us work on relationships yet they do not happen.

The corollary that is suggested is that, if a relationship is bad, the outcomes will not happen. I do not think that I could handle that.

Alex Johnstone: Or does that mean that people who cannot form relationships have perhaps made the wrong career choice?

John Mason: That is possible.

The Convener: Paul, would you like to bring us back to planet earth?

Paul Wheelhouse: Is this about the question that I asked earlier or are you assuming that I have another question? I did not ask to speak.

The Convener: Okay. This is a bit like an auction: if you touch your nose, you will be called to speak.

David Alston wants to contribute; I am glad about that. After speaking on the issue of collaborative working, which we have moved through swiftly, I would like you to move on to the issue of financial challenges. The written submission from Highland Council states that the council supports a review of current funding arrangements to improve the accountability of CPP performance. In fact, we touched on that recently. I therefore invite you to speak on collaborative working, then to move on to funding.

Councillor Alston: On the CPPs, it is important that every chief executive and every chair of a board knows that they will be held to account for the quality of their partnership working and not just for what goes on in their own organisations. There needs to be a change in the statutory duties, and that needs to be audited. At the moment, I do not think that anybody audits the quality of the partnership working; individual partners and their contribution to the partnership are audited, but the overall partnership is not audited. Changes in that regard would help.

Margaret McCulloch asked whether it would help to put some money into the partnerships. It would help, in the sense that when people have got money to spend it focuses minds and people collaborate more. However, the problem is that the work that needs to be done on preventative spend is far wider than the scope of the change funds. There is a danger that the funds will make us think that the work is restricted to what can be done with a limited pot of money, whereas what needs to happen is the opening up of options for a much more significant transfer of financial resources between organisations. Creative solutions will require either structural change or some pretty radical use of existing structures. The relationships are important, but even with the best relationships things do not work as productively as they could do.

The Convener: I am glad that George Black has put up his hand, because I was going to ask him to comment anyway.

George Black: On the auditing side, local authorities are audited under the best value and community planning audit as the lead facilitator for community planning. The auditor talks to the other partners about how the council is performing in that role, but the other partners are not audited in the same sense.

On the money side, it is an issue of scale. In terms of showing the direction of travel, it is helpful for the Cabinet Secretary for Finance, Employment and Sustainable Growth to establish change funds. However, if we are talking about a significant movement, the change funds are not a totem as such—the amounts that are being talked about are small in comparison with the mainstream budgets of councils, health boards and the police. Change funds have an important role to play, but more robust governance will be needed if significant sums of money are shifted to where decisions are taken at a community planning level, rather than at the level of the individual organisation.

The Convener: In your written submission, you referred to

“the ‘sovereignty’ of decision making around budgets”

and to the scope of decision making and the ability of key partners to pool budgets. Is that about the fact that there may be one key player and therefore an imbalance? There are also issues about coterminous boundaries in trying to deliver.

George Black: Sovereignty is a background issue. The Glasgow community planning partnership has a budget of about £40 million, which came out of the former fairer Scotland fund. That money is available to it as a partnership, but the council has the governance of the money. There is therefore an uneasy relationship in that the council must formally make decisions in that regard for the community planning partnership. That has worked because the council has always agreed with the CPP's views, but if it disagreed with them, that would undermine the whole process. That is the system that we currently have. The money is legally held by the council.

12:30

I should sound a note of caution. In the early days in Glasgow, the community planning partnership would have everybody at the table, as there were significant budgets, but its focus was almost solely on how to spend the money rather than on the more strategic issues. We have had to work hard over the past few years to move the focus. The partnership's agenda would be all

about spending small sums of money; it is only in the past year or two that we have moved the focus on to more strategic issues. There is a lesson there. If we are talking about a big switch into preventative spending, we need to be clear that that is not just for financial reasons; it should be for clear outcomes further down the line that we can all sign up to.

The Convener: Margaret McCulloch can ask the next question. She will be followed by Paul Wheelhouse, given that he was waving a big flag.

Margaret McCulloch: My local council, South Lanarkshire Council, is already preparing for a bad winter by buying grit at a low cost. That is a good example of preventative spend. If such initiatives were monitored and assessed, hospitals, the police and social work departments could see the impact of and the benefit to them of councils investing money in that way. Such initiatives will save organisations money. They will not have to care for people in their homes or in hospitals, and the police will not have to go to accidents.

I am concerned about how effective the CPPs are. Are they working? Are some working and some not working? If some are, what good practices do they have? What are they doing? Should each partner in a CPP have to match the money that John Swinney is putting into preventative spend from its budget for a period of time? Should the initiatives then be monitored to see what benefits and savings each partner in the CPP is bringing about as a result of them? Would that be a good idea?

Paul Wheelhouse: My question is on a similar line, although it comes from a slightly different angle. I want to tie together the evidence that we heard at the end of the previous evidence session from Jeremy Peat and Jo Armstrong, the points that Rachel Cackett made about the need to be brave and identify areas in which to disinvest, and George Black's evidence on the initial move towards preventative spending not being big enough. Can we get consensus on the areas of spending that the committee is looking at which we should look to disinvest in? Can you give the committee any guidance on that?

Rachel Cackett: I do not know whether we are yet clear enough about two things before we can answer that question. One is the priority issues. Until we can be clear what we are prioritising and therefore what the investment in that will cost, we will not know how much we have to save.

We have been raising the other issue of the transparency of the current situation, and we did so significantly in our written evidence. It is almost impossible to get involved in some of the discussions without all the partners around the table being absolutely clear about what the current

situation is. Before we go into the specifics of what services to cut or what universal benefit to remove, we need much clearer scoping of what the overall direction is, what that might cost, the basis of the current situation, and what exactly it is. We have raised a number of issues to do with how efficiency savings are being reported, for example, and the difficulty of tracking efficiencies rather than cuts and where the money then goes. The question can be considered when those things are clearer.

Councillor Alston: As well as being on the council, I was on the board of NHS Highland until earlier this year and I am trying to dredge up some figures from the back of my mind. Analysis was done of the amount of spend in the major hospital in the Highlands that was the result of emergency admission of older adults and it was enormous—I wish I could remember the percentage. With preventative spend, what needs to happen is that instead of money being spent on emergency admissions it should be transferred to anticipatory health care, so that people do not end up in hospital, and spent on re-enablement and social care. The amounts of money involved are huge and we must open them up to consideration of how they are transferred. The change funds, although they are very welcome, are minuscule in comparison with what we need to think about.

Paul Wheelhouse: So, in effect, rather than identifying programmes that we must cut back on per se, we should consider the impact of reducing demand on particular services and must therefore concentrate on targeting preventative spend to reduce acute admissions and bedblocking, for example. Would such initiatives have the greatest impact, in your view?

Councillor Alston: As long as the savings can be recirculated to where they are needed, which might not necessarily be within the organisation. The real difficulty lies in getting that flow of funds.

Rachel Cackett: Picking up on David Alston's point, there is a problem that lies at the crux of the issue. If health boards, for example, are absolutely clear that prevention is the political will and that is how priorities will be set, they might take a very different approach. For example, they might close a ward in order to make the step change towards reduced admissions. If prevention was the way forward, and everyone was clear on that, they might take their nursing staff and retrain them, putting them into community services to pick up the demand earlier.

Unless that approach is clear, a ward might be closed to make an annual cash efficiency saving with potentially long-term detrimental effects on what you, as politicians, are saying that you want—that is, preventative spend. Once you have lost that expertise, you have lost it. We must

consider how we make that shift for an economic benefit in the longer term rather than making a quick shift to meet the pressures that the boards are under for an accounting efficiency in the immediate term. That is the balance that people are really struggling with now.

Paul Wheelhouse: That is a very fair point.

George Black: I want to make a practical point, I guess. I do not think that it is helpful to start the debate with a figure or percentage in mind that will be moved into preventative spend. The effort has to start with asking what you would do differently. You must identify your priorities—we have three priority areas in Glasgow—and consider how you would redesign services in those areas to make a long-term difference. The consultation with the wider public must, in my view, spell out the benefits of that change so that when you reduce expenditure elsewhere people can make an informed decision about whether that is a good thing to do. If you go out to public consultation and say that you want to move £100 million into preventative spending and set out the areas in which you will make reductions to achieve that, I do not think that you will get public support.

We have identified three areas in which we will concentrate on redesigning services, taking a multi-agency approach. The task will be to cost that, to sell it to the public and to politicians as a good thing to do and to convince them that the balance between the benefits and the reduction in expenditure is a good shift to make.

The Convener: George, I will come back to you in a second, because I want to move on to the final section, which is about the national performance framework measuring outcomes. In its submission, Glasgow CPP states:

“more coherent performance arrangements across partners would ... be beneficial. Some existing performance indicators are contradictory and incoherent.”

East Ayrshire CPP states:

“Targets and budgets are set independently for the NHS and the Local Authority and this is reflected in very separate and different governance arrangements. Such an approach is not consistent with enhanced Community Planning arrangements.”

Perhaps George Black can respond to that first.

George Black: In moving to single outcome agreements the first time round, we tried to gather from each organisation its most relevant health, police, fire and council indicators. It would be no exaggeration to say that those were simply aggregated to form the indicators and targets for the community planning partnerships.

The next stage was to try to reduce the number, because—strangely and somewhat counterintuitively—people wanted to have a lot of

targets and indicators in their own area. We should have taken a fundamental look at which indicators we needed, and agreed with the Scottish Government a balance between local and national outcomes. That process needs to start now. We would be in a better place if we had started it three or four years ago, but we are where we are. We need to ensure that the indicators suit individual areas rather than simply aggregating each organisation's requirements.

Paul Wheelhouse: My earlier point is relevant to John Dickie and others who have an interest in early years. The submissions that we have received clearly state that there is a lack of indicators—Alan Sinclair suggested that only four of 45 indicators could, at a stretch, be regarded as relevant for early years. Is there a consensus on which indicators we would add to the national performance framework to give us good-quality information and tell us whether preventative spending is working? I recognise that it may take some years to see the impact, but we can put in train the appropriate performance framework to monitor that.

John Dickie: In our view, a specific indicator on child poverty at a national level and, more important, at a local level within single outcome agreements, is pretty important in driving forward the agenda. The extraordinary costs that child poverty creates further down the line in additional problems with health, educational underachievement and all the rest mean that such an indicator is necessary.

I welcome the fact that there is solidarity at a national level. It is good that we have an income inequality target and targets for reducing overall levels of poverty, but we need a specific child poverty indicator.

Indicators that relate to overall levels of family income and the number of children who live in very low-income households are important, but it is not necessarily in the gift of the Scottish Government, local government and other public providers in Scotland to have an overall impact in that area.

We need indicators that relate to the progress that we are making in putting in place the type of infrastructure that we need to build a society that does not tolerate such levels of poverty and the cost that poverty imposes. We need indicators to assess our progress on putting in place the childcare infrastructure that would allow parents to take up employment opportunities and give children better early education opportunities.

We need not only the headline measures of poverty and child poverty but indicators relating to the things that we know have an impact on family incomes, which we can start putting in place

locally. Another important area relates to services that maximise incomes; I referred earlier to the health and wellbeing in children pilot. We need to measure progress on developing a local advice and information infrastructure to ensure that families get the financial support—devolved and reserved—to which they are entitled.

Marita Brack: In focusing on early years, it is important that we consider child development and how and when children hit school. We need to consider whether they have experienced a good pre-school environment that has allowed them to thrive in a school environment so that they do well in language, social and emotional skills and general behaviour.

12:45

Clyde Hertzman and his group have done a great deal of work in Canada, and there has been progress in Edinburgh on the child development index, which is good because it assesses how child development has progressed rather than looking for deficits. It would be nice to focus on that as an early years tie-in.

Paul Wheelhouse: That is helpful.

Gwen Barker: It would be useful if we had one consistent performance management reporting framework, whether or not that is tied to our single outcome agreement. We currently have the single outcome agreement, on which the community planning partnership reports; SPIs for the council; and HEAT targets for the NHS. That means that there are sometimes competing and conflicting demands.

If we move to longer-term outcome-based planning and preventative spend, we might not see any changes for a period of time, so we must ensure that we have good consistent methods for reporting on our indicators.

The single outcome agreement covers only a three-year period. We often go back to examine the baseline position and find that somebody somewhere has changed the way in which it is recorded, which does not give us the opportunity to measure progress. A consistent approach from national Government would be useful so that we can track progress over a longer period of time, which would be very beneficial for us.

Councillor Alston: I completely agree. One big issue is that many of the HEAT targets do not relate to outcomes. Partnership working is difficult when one major organisation is working towards targets that relate to process rather than to outcomes.

The Convener: I see that no one else has any questions, so I will bring the session to a close. I thank all the witnesses for coming along and for

their contributions. I apologise for the fact that the session started somewhat late due to the previous session overrunning, but we have caught up. We will certainly reflect on all the issues that have been raised today, and I hope that we will be able to discuss the subject again in the not-too-distant future.

12:47

Meeting continued in private until 13:06.

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