



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

HEALTH AND SPORT COMMITTEE

Tuesday 17 April 2012

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HEALTH AND SPORT COMMITTEE

13th Meeting 2012, Session 4

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

Bob Doris (Glasgow) (SNP)

COMMITTEE MEMBERS

*Jackson Carlaw (West Scotland) (Con)

*Jim Eadie (Edinburgh Southern) (SNP)

*Richard Lyle (Central Scotland) (SNP)

*Fiona McLeod (Strathkelvin and Bearsden) (SNP)

*Gil Paterson (Clydebank and Milngavie) (SNP)

*Dr Richard Simpson (Mid Scotland and Fife) (Lab)

*Drew Smith (Glasgow) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP) (Committee Substitute)

Anne MacDonald (Scottish Government)

Michael Matheson (Minister for Public Health)

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy)

Dr Andrew Walker (Committee Adviser)

Calum Webster (Scottish Government)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

Committee Room 4

Scottish Parliament

Health and Sport Committee

Tuesday 17 April 2012

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

Subordinate Legislation

National Health Service (Superannuation Scheme and Pension Scheme) (Scotland) Amendment Regulations 2012 (SSI 2012/69)

The Convener (Duncan McNeil): Good morning and welcome to the 13th meeting in 2012 of the Health and Sport Committee. I remind all those present that mobile phones and BlackBerrys should be turned off as they can interfere with the sound system.

The first item on our agenda is consideration of motion S4M-02588, in the name of Drew Smith, which recommends that the National Health Service (Superannuation Scheme and Pension Scheme) (Scotland) Amendment Regulations 2012 be annulled.

For this item we are joined by Nicola Sturgeon, Cabinet Secretary for Health, Wellbeing and Cities Strategy; and, from the Scottish Public Pensions Agency, by Chad Dawtry, director of policy, strategy and development, and Eleanor Guthrie, senior policy manager.

We took evidence from the cabinet secretary on the regulations at our last meeting so we will move straight to the debate. Under rule 10.4.2 of standing orders, the debate can last for a maximum of 90 minutes. Only members may take part in the debate—the cabinet secretary's officials cannot participate directly. I invite Drew Smith to speak to and move motion S4M-02588.

Drew Smith (Glasgow) (Lab): Thank you. I assure the committee that I do not intend to take anything like that amount of time for my portion of the debate. One of the reasons why it will be brief is that the cabinet secretary has previously appeared before the committee on this issue. When I lodged the motion, I hoped that we might have the opportunity to discuss the issues with one of the finance ministers, but I understand that John Swinney is abroad and I am grateful to the cabinet secretary for stepping in to discuss this with us again.

I will inform committee members why I lodged the motion. Trade unions and ordinary national health service workers have asked MSPs to pause and consider before agreeing to attacks on NHS

pensions. Allowing the regulations to come into force will result in an increase in employee contributions of up to 2.4 per cent, at a time when pay is frozen and the cost of living is increasing. From our previous evidence session with the cabinet secretary, we know that the hardest hit will be lower-paid part-time workers. All this will happen at a time when the NHS pension scheme is in surplus and not one penny from the increased revenue will go to improving the pension offer. In fact, paying more to get less will result in more people opting out of the scheme, as a result of which there will be a higher cost to the taxpayer to support retired health service workers in older age.

I agree with the Scottish Government and the cabinet secretary's previous evidence on who is the instigator of the changes. There is no disagreement between us that the direction that the United Kingdom Government has set on public sector pensions is the wrong one. However, the Scottish Government has the power to act differently in Scotland, and I acknowledge that it has suggested that it is willing to look at doing that in future years. That means that there will be hard choices, but it is important that we note that, although a choice is hard, a choice it remains.

As I said, I am grateful for the cabinet secretary's previous evidence. She has the opportunity to say something further this morning, and I wonder whether she could comment on some of the key questions. Why is the Government entering into negotiations on years 2 and 3 but implementing the coalition policy in year 1? What confidence can the workforce have in negotiations for years 2 and 3 when the change has been forced through in year 1? What is the cabinet secretary's reaction to Unison, which points out that efficiency savings—which we discussed previously—could have negated the need to make the change in year 1? It cites a figure of £175 million for efficiency savings that have not been budgeted for—savings that have been achieved over and above the 2011 efficiency savings target. I understand that that figure is based on the Scottish Government's figures. Unison argues that using that money now would allow for good faith negotiations to proceed in years 2 and 3.

The Scottish Government has said that it opposes the change. I therefore believe that it is incumbent on the committee to create the space to debate again the wisdom of the regulations. I would have preferred that Unison had had the opportunity to give evidence to the committee, given that it has embarked on selective strike action on the issue. However, I welcome the opportunity that you have given me, convener.

I move,

That the Health and Sport Committee recommends that the National Health Service (Superannuation Scheme and Pension Scheme) (Scotland) Amendment Regulations 2012 (SSI 2012/69) be annulled.

The Deputy First Minister and Cabinet Secretary for Health, Wellbeing and Cities Strategy (Nicola Sturgeon): Drew Smith acknowledged this in his opening remarks, but I say for the record that John Swinney would have been here had it not been for his pre-arranged trade mission to Japan. He asked me to make that clear to the committee.

As I said when I gave evidence on the issue, it gives me no pleasure at all to sit here. I have sympathy with the position that the trade unions take on the matter. If the Scottish Parliament and Government had unfettered power over pensions policy, we might well have found ourselves in a different position and not requiring to debate the regulations. However, we are where we are.

The Scottish Government's position is abundantly clear: we do not agree with the UK Government's policy of increasing pension contributions in this financial year. We have made it clear on repeated occasions that we think that that is the wrong policy at the wrong time. The reason why we think that it is wrong is closely associated with factors such as the wage freeze and the rising cost of living. The Scottish Government would not have asked public sector workers to pay more towards their pensions at this time had it been in the position to decide on the matter without interference from Westminster.

That said, the Treasury, unfortunately and regrettably, has equally made its position abundantly clear: it has confirmed that, if the contributions are not applied this year, it will dock the Scottish Government's budget by an amount equivalent to what the contributions would otherwise have raised. When we spoke previously, I set out what that would mean for the overall Scottish Government budget and for the NHS budget in particular. As we are talking specifically about the NHS pension regulations, I will confine my remarks to the NHS budget.

I do not like to find myself or the committee facing the hard, inescapable reality that, if the committee votes to annul the regulations, it votes to remove almost £5 million every single month from the health budget. I am afraid that that would involve taking nearly £5 million every month away from front-line services.

As I said, the Scottish Government does not agree with the policy. We have tried to protect low-paid workers. As I pointed out previously, nobody in the NHS who earns below £26,500 in full-time salary—the last time that I spoke to the committee, we discussed the full-time/part-time issue—will pay any increased contribution. Round about 47

per cent—almost half the members of the NHS pension scheme—will not pay increased contributions this year.

As I also made clear when I last spoke to the committee, the regulations concern this financial year—2012-13. We have made it clear that we are willing to negotiate with stakeholders and trade unions across all the different schemes to find out whether there are different ways forward for the future. However, we have also made it clear that any different way forward must be within the overall cost envelope that the Treasury has set because, if it were not, any changes that were more expensive than, or did not deliver the same level of savings as, the increased contributions would hit the Scottish Government's budget, as would be the case this year.

I think that the last time that I was at the committee was the day before I was due to meet the Scottish terms and conditions committee to kick off the negotiations for the NHS. We had a constructive meeting that day. I recognise—as does that committee—the challenge of trying to come to a different set of arrangements within a cost envelope. Nevertheless, there is a willingness on both sides to try to do that.

Since that meeting, John Swinney has received a letter from the Chief Secretary to the Treasury that appears further to restrict our room for manoeuvre in future negotiations. That letter has been shared with stakeholders and trade unions. If it has not already been shared with this committee, I am happy for members to see a copy of it. John Swinney has written to Danny Alexander seeking clarification.

We remain committed to the negotiations, but the letter demonstrates clearly the position that the Scottish Government is in. We may want to do something different, but the whip hand is held by the Treasury, which is seeking to limit our room for manoeuvre.

I have huge sympathy with the position of the trade unions. I know that, however they vote on the motion, all members—or most members—will do so with a heavy heart. I underline that the reality is that, if the committee votes to annul the regulations, services in the NHS will be hit immediately.

I have no gripe with Drew Smith for lodging the motion but, beyond referring to efficiency savings, he did not suggest how we could fill the funding gap in the health service. Members of Drew Smith's party frequently go on the record to criticise us for asking the health service to make efficiency savings. Voting for the motion would increase the efficiency savings that we are asking the health service to make. Remember that, up until now—if I have my way, it will always be the

case—any efficiency savings that the NHS makes are ploughed back into front-line services.

That is the Scottish Government's position. It is with a heavy heart that I find myself having this discussion again, but that is the reality of the situation that we face. If this Parliament had powers over pensions, as I hope that it will one day in the not-too-distant future, we would be in a different position, but the position that we find ourselves in today is, in large part, down to the division of powers and responsibility between this Parliament and the Westminster Parliament.

The Convener: Thank you, cabinet secretary.

Richard Lyle (Central Scotland) (SNP): First, I had better declare that I am a member of the NHS pension scheme.

I became a politician for one reason: to defend services and the people who work in them. I take no pleasure in this debate, but I say to Drew Smith that, although I do not dispute his right to lodge a motion to annul the regulations, it is basically grandstanding and a form of gesture politics—it reminds me of the phrase “power without responsibility”.

We have the responsibility to ensure that we do the best for the workers in the NHS and for the people who use the service. I do not like the fact that the UK Government has taken this approach, which I see as a form of deficit reduction. However, if we agreed to Drew Smith's motion, we would take something like £5 million out of the NHS each month. He did not tell us how we would fill that gap. He went on about efficiency savings but, since I became a member of the Parliament, I have heard various politicians talk about spending the same money twice, three times or four times.

We take no pleasure today in what we have to do but, as the cabinet secretary rightly said, the pensions change is being forced on us by the UK Government. If we had our own Parliament and our own Government, we could progress along the lines that Drew Smith has suggested, but we do not have that pleasure. We are being forced into a position that none of us likes or supports in order to defend services and defend the workers.

I will not repeat all the figures that the cabinet secretary has given us, but they are all correct and have all been proved. What would Drew Smith cut to ensure that we do not need to implement the regulations? He has not told us and he cannot give us any figures. As far as I am concerned, the motion to annul is just a form of grandstand politics—power without responsibility—and I will vote against it. I will do so with a heavy heart, but that is the situation that we are in. We must defend services and workers wherever possible. When we can do that with our own Parliament and Government, we will do so.

10:15

Dr Richard Simpson (Mid Scotland and Fife) (Lab): We are all in agreement that we are not comfortable that people are being asked to make an increased pension contribution at a time when their pay is frozen and the cost of living is going up. We can also all agree that there can be discussions about how the deficit reduction can be undertaken at a UK level. There is no doubt that a deficit reduction must be undertaken. However, most of us feel that this method of deficit reduction is not appropriate.

I have a number of concerns. First, the cabinet secretary came before us the other week and said that negotiations were going to take place in years 2 and 3. Why are we not having negotiations—within the cost envelope—in relation to year 1? Secondly, my particular concern, which I raised in the debate the other week, is the discrepancy between part-time and full-time workers. Two workers—one part-time and one full-time—could be on a salary of £15,000 but the part-time worker's contribution would be substantially higher. The cabinet secretary acknowledged that that was the case. It seems appropriate to look at that area within the cost envelope in order to ensure justice for those on lower pay.

The motion to annul is necessary in order that we can have this debate: we could not have the debate unless we had moved the motion.

I am interested to know whether the distinction awards are pensionable. Those are awards for meritorious service, but they are often awarded late in careers and, if they are received for three years, they are pensionable. It does not seem fair that somebody on £100,000 who gets another £10,000 or £20,000 in their last three years of income also gets extra from the pension pot for as long as they live. That is another area that we should look at even in the first year.

The same principle applies to bonus points, which are separate from distinction awards, as I made clear in the chamber before the recess in my question to the First Minister. There are 2,000 consultants getting bonus points, and 630 have had a pay increase this year on the basis of their previous bonus points. Also, 250 have received new bonus points, so they too have had a pay increase in the past couple of years.

The answer to a freedom of information inquiry that we have made shows that there are still 500 managers on performance-related pay. Is that pensionable? I do not know. If it is pensionable, at a time of restraint when we are told that we are all in this together, the people at that end should be the ones giving it up. The mechanism for that might not be to put their pension contributions up, as that is already happening—there is a higher

level of contribution for those on higher pay. It may be time to say that the awards are fine but that the recipients are not going to get a bigger pension because of them—the awards are additional to their pay. Perhaps in year 1 that would take out of the system sufficient for us to consider the question of contributions from part-time workers.

Richard Lyle, the cabinet secretary and the whole of the SNP Government constantly tell us that it will all be different when we get independence—that the Scottish Government will protect the workers in a way that is simply not possible while we are part of a UK structure. However, we will be left with the same share of the deficit and we will have to reduce it. Richard Lyle talks about other parties being irresponsible in calling for additional expenditure, but I regard it as irresponsible of the Scottish Government not to tell us what it would do if it had total power over its own pensions. That might even occur under the Scotland Bill.

We need to know what the Government is doing, as part of the process of moving towards a referendum to allow Scots to make a decision about independence, to consider how it can meet the aspirations that Richard Lyle clearly set out whereby, after independence, it will all be milk, honey, jam and the rest of it—I see that Richard Lyle is nodding—although for the first few years, at least, we will be in identical economic circumstances and we will have to pay our share of the deficit.

If we do not use the mechanism that we are considering, which I do not agree with, we must find another mechanism. What modelling has the Government undertaken in that regard? Will it publish its findings before the referendum, whatever date is chosen for it to occur?

Jackson Carlaw (West Scotland) (Con): Debates in committee such as this one can be slightly less hysterical than debates in the chamber. I commend Richard Simpson for how he introduced his speech and for some of the themes that he articulated.

I suppose that members assume—and that it is convenient to assume—that because I am a Conservative and a Conservative-led coalition Government at Westminster is dealing with the issues, I am charmed by and adopt with glee and excitement the policy of pension reform on which the Government at Westminster has embarked. That is not the case.

However, I do not accept the cabinet secretary's assertion that we are having this debate entirely because of the division of responsibilities between Parliaments, and I do not accept that we are doing so entirely because the matter has been forced on us by the UK Government, as Richard Lyle

suggested. We are having this discussion partly because the world into which everyone in this committee room will retire is very different from the world into which the two generations before us retired. People are living longer and the cost of pensions in Scotland and the United Kingdom, which has one of the most advanced pensions structures in Europe, is unsustainable. The reality of the demographics is that, whether the issue is tied to deficit reduction or any other issue, the current pensions model is unsustainable.

It is too easy for the Scottish Parliament, which does not have the ultimate responsibility for addressing the issues, to tease or window dress from a distance and to pretend that everything would be different if Scotland had control over such issues. There is a distinction between what Richard Lyle said and what the cabinet secretary said; the cabinet secretary was careful enough to say that things “might well” be different if we had control over the issues, which is not the same as saying that things absolutely would be different.

I welcome the cabinet secretary's involvement in such discussions as the Government feels able to engage in, within the scope of its responsibilities, to negotiate an arrangement in Scotland. During our previous meeting it was difficult, ahead of those negotiations, to establish whether they will lead to anything specific. To some extent, we are having this debate slightly blind.

I understand that people will work longer, as will happen elsewhere. That might be the wrong policy at the wrong time, as some people suggest, but no one is saying what the right policy is or when the right time will be. Inflation is falling and the reality is that the contribution that people will make is increasing. However, the policy is ultimately redistributive, to some extent, in that people on lower earnings will receive a higher pension when they retire. That is a good thing.

Richard Simpson identified a number of issues. I understand the passion and commitment of people who have tied the issue up almost exclusively with deficit reduction—to some extent I, too, am uncomfortable with such language. However, Governments in power in Scotland, in the UK or in any country in Europe, whatever their colour or stripe, must wrestle with the same issues.

I accept that the physical nature of some of the work in the health service is such that expectations that might apply elsewhere might not apply to the health service. Such issues will be part and character of the discussions that take place. I, too, can say that I support the approach with a heavy heart, if that is the language of sympathy that we want to use—although I do not think that it is as honest as it needs to be. I oppose the motion, partly for the reasons that the cabinet

secretary identified, but I understand the points that Richard Simpson made.

I understand and sympathise with much of the language that others have used, but I came into politics to be responsible. If we are charged with a responsibility, that means not always saying what people want to hear. There is an issue. It is easy to say that we dislike the solution that is being advanced, but it is much more difficult to articulate the alternative, and nobody is doing that.

Fiona McLeod (Strathkelvin and Bearsden) (SNP): After Jackson Carlaw's comments, we must be clear again about why we are here today—we are here because of the threats and intransigence from the UK Government. The cabinet secretary has made it clear that, if we do not proceed with the regulations, £5 million a month will come out of the health budget alone and £8 million a month will come out of the Scottish Government's budget. We must keep that clearly in focus.

The cabinet secretary referred to the recent letter from Danny Alexander about added interference in the Scottish Government's negotiations, which she told us about when she appeared before the committee on 27 March. We must focus on that.

Drew Smith made two suggestions for avoiding implementing the regulations—he talked about using the £77 million surplus from the pension fund and the £175 million of efficiency savings that the health service is heroically making. The cabinet secretary dealt comprehensively with both those suggestions on 27 March. More important, the evidence from Scottish Public Pensions Agency officials knocked on the head the idea of using the surplus from the pension fund. It was made clear to us that we have no access to that surplus. Any surplus goes back to the Treasury, so the Scottish Government cannot use it. In the long term, a surplus from pensions should be reinvested in pensions to ensure that we have pensions for future demographics. Using the surplus is not an option that is available to us.

The cabinet secretary reiterated today her commitment and pledge to reinvest the £175 million of efficiency savings in front-line services. I would think that everybody on the committee and everybody who works in the health service would welcome and be pleased to hear that pledge. If taking £175 million out of the front line and using it for pensions is suggested, so that the efficiency savings are not reinvested in front-line services, we must ask what services would be affected and what jobs would be cut in the health service.

I agree absolutely with the health secretary when she says that she approaches the situation with no pleasure, with a heavy heart and with

sympathy for all those who are involved in the health service. We heard all the arguments on 27 March, when we concluded that any choice that the Government has—Richard Simpson and Drew Smith implied that it has a choice—is Hobson's choice: you are damned if you do and damned if you don't.

I say with a heavy heart that I will not support the motion, because Scotland needs to protect our front-line health services. I do not understand why we are debating the issue when all the arguments were refuted in the evidence on 27 March.

Gil Paterson (Clydebank and Milngavie) (SNP): I do not want to repeat anything that has been said and I will try to avoid doing that, except at the end of my contribution. I will try to concentrate on the reasons why we are here.

We are here because the Parliament is in a straitjacket. We are constrained in how we can react to matters, because of the Scotland Act 1998. It is rather ironic that the people who created that act, to which we need to march, were in the Labour Party, and the Labour Party has today brought Hobson's choice to the table, even after having the explanation and the clear indication of how reluctant the Scottish Government is to act in the way that it must, according to the rules of engagement for the choices that we need to make.

10:30

The reality is that we are talking about a potential loss to the health service of £60 million per annum, which is equivalent to 2,000 nurses being sacked. Those are the figures that we are talking about but, again, Labour comes to the table with a smokescreen of a suggestion that we can use funds that we do not really have. If Labour brought something meaningful to the table, we would be brave enough to consider it, just as the old Labour Party was brave enough to make some tough choices. If Labour brought something to the table that we could look at, perhaps we could be persuaded by it and come to a different conclusion, but we have no choice in the matter. I cannot go along with the idea that we should be silly enough to stand back and allow Westminster to take money away from the Scottish budget.

I have a note of the cabinet secretary's previous comments here. She has consistently said that she takes no pleasure in even discussing the matter. It is quite clear that she feels that way. I have no pleasure in talking about it, either. I find it reprehensible that the people who put the rules in place and have constrained us in this way are the people who have brought this motion to the table today.

Jim Eadie (Edinburgh Southern) (SNP): The starting point for this discussion is clearly the gun that is being held at the Scottish Government's head by the Conservative-Liberal Democrat coalition at Westminster. To that extent, I think that there is agreement in the committee. The £2.8 billion of savings that are to be found across the public sector will be paid for by the people who work in the health service, to whom we all owe a huge debt of gratitude. That is the reality that we have to face in this discussion.

The fact that the increases in pension contributions will come out of the pockets of the people who work in the health service is something that concerns me and should concern us all. However, we also have to ask what the response of a responsible Government should be. It should be to protect low-paid workers as far as is possible within the constraints under which the Scottish Government operates. I believe that the Scottish Government has acted to do that. That is why it has put in place protection for the lowest paid to minimise the opt-outs from the schemes and, notwithstanding the perfectly reasonable point that Richard Simpson made, why no one in the NHS scheme in Scotland who earns below £26,500 full time will pay a penny more.

I accept that other members have concerns, and the purpose of our discussion this morning is to raise those concerns and have them addressed by the Government. That is perfectly reasonable, just as it is perfectly reasonable for Jackson Carlaw to make the point that we are facing a demographic shift in our society that will place a huge burden on future generations as we attempt to meet the costs of pension provision. However, the reality is that the Scottish Government is facing a clear choice. It could impact on front-line services by refusing to increase the pension contributions of public sector workers and workers in the health service. That is a price that I and others are not prepared to pay because, as Fiona McLeod said, it would take out of the health service £4.6 million every month, or £56 million over the financial year. That is simply not acceptable.

When examined, the Labour Party's two suggestions, the first of which relates to efficiency savings and the second to the NHS pension surplus, are simply not credible. For a start, the surplus is not available to the Scottish Government; every penny of it has to go back to the Treasury. It is simply not the solution that Richard Simpson attempted to suggest it was.

Dr Simpson: I did not say that.

Jim Eadie: The cabinet secretary herself has adequately addressed the issue of efficiency savings. We cannot use the additional £175 million that was identified in 2011 both to address the pension issue and for investing in front-line

services. If we used those savings to plug the pension gap, we would do so at the cost of front-line services. That point has not been adequately addressed by Labour members and I hope that Drew Smith will address it, and my point about the pension surplus, when he sums up.

This situation is not of the Scottish Government's making but has been forced on us by the Conservative-Liberal Democrat coalition. The earliest opportunity that we will have to get rid of that coalition will be the 2014 referendum and I think that I speak for hundreds of thousands of people across Scotland when I say that I, for one, cannot wait for that opportunity to rid ourselves of that coalition not just for one election but for all time.

The Convener: If no other member wishes to comment, I ask the cabinet secretary to make some closing remarks.

Nicola Sturgeon: I thank all members for their comments.

People might not expect this, but I start by agreeing with Jackson Carlaw. It is the responsibility of all Governments, not just those in Scotland, to ensure that we have affordable, sustainable and fair pensions and the reality is that countries all over the world are facing up to the demographic changes that are taking place in society. We need to look at a variety of issues, including pensions and pension entitlements, and the fact is that no one can escape the longer-term challenge of ensuring that pension schemes are sustainable.

I do not think that anyone has mentioned this so far, but I should point out that a few years ago the NHS pension scheme was reformed to address certain longer-term sustainability issues. However, the fact is that, this morning, we are talking not about those longer-term challenges but about short-term increases in contributions that apply in this financial year. As members have pointed out this morning—and, indeed, as I said in the previous evidence session—the reality is that these short-term measures are more about deficit reduction than the sustainability of pensions.

I want to respond to a number of points that have been made. Richard Simpson asked—legitimately, I think—why, if we are prepared to negotiate for future years within a cost envelope, it has not been possible for us to do so for this year. We had high-level discussions with trade unions, but it was not possible to move this year to scheme-specific discussions that would have looked in detail at alternatives to these increases in contributions. That said, all the parties involved have agreed to do that in future. Notwithstanding my earlier comments about the Treasury's latest position, I hope that we can have an open

discussion on the matter and examine where we can do things differently to better meet the needs of Scotland's workforce.

I want to address a question that I raised in my opening remarks: how, in these regulations, we can fill the gap in the NHS budget that will immediately arise. To be fair, I acknowledge that various people have made three broad suggestions to deal with that issue. The first relates to the fact that the NHS pension scheme is in surplus but, as Fiona McLeod among others pointed out and as we discussed at the previous evidence session, that surplus is not available to the Scottish Government. For as long as it might exist, it goes to the UK Treasury and is not something that we can rely on.

Secondly, we have had the all-encompassing efficiency savings. I direct this remark to Drew Smith and Richard Simpson in particular: they and other members of their party already routinely object to and protest about efficiency savings. I believe that it is important that the NHS is efficient, but I also believe that it is important that efficiency savings are reinvested into supporting front-line services. Therefore, I do not think that it is good enough to simply say that there would be a £5 million reduction every month in the health budget but it would be filled by efficiency savings.

The third proposal—in fairness to Richard Simpson, it was more specific—seemed to centre around certain entitlements that doctors have. I have done more than any previous health secretary to constrain and, indeed, start to reduce the budget for those entitlements. As members know, I am very keen to see long-term reform of that system. However, some of the entitlements are contractual—agreed under a contract that was negotiated by a previous Labour Administration, I hasten to add. They cannot simply be ripped up at will; longer-term reform takes time.

We come to the point that I will finish on, which is the point that I started on. If the motion to annul the regulations is passed, we will have a £5 million hole in the NHS budget every single month. Nobody who supports the motion has come up with credible suggestions about how we fill that hole.

I will not repeat everything that I said about the reluctance and heavy heart that I have in this discussion—you can take that as read by now. However, that is the position we are in. Until we are in a different position, in terms of powers of this Parliament, I am afraid that that is the reality we face. That is why I ask members to vote against Drew Smith's motion.

The Convener: I invite Drew Smith to wind up the debate and conclude by indicating whether he wishes to press or withdraw the motion.

Drew Smith: I thank members for their perseverance and for taking part in a useful debate which was very different from those that we are perhaps more accustomed to in the chamber. There were a number of good contributions, particularly from Jackson Carlaw. Although I disagree with him on the wider scope of pensions policy, he made a number of good points in an extremely charming way—although he said that he did not want to be charming about it.

There was some discussion as to whether the cabinet secretary said in her initial remarks that things would be different or that things may be different if the Scottish Government had unfettered power in this area. Other committee members indicated that they believed that things would definitely be different. In creating the focus and providing the space to debate the regulations today, I sought to say to the Parliament that on such an important issue to NHS staff it is not good enough to say that things would be different in a different constitutional set-up. There are opportunities and the Scottish Government has powers. A choice may be difficult, but a choice it remains. A better argument to convince people of the case for a change in powers would be to demonstrate how powers have been used to help and support people.

There are a number of things about which I hope the cabinet secretary will keep in touch with the committee. From what has been said, it is not completely clear what has changed in Danny Alexander's second letter. I appreciate that the finance secretary has written to seek further clarification on that, and I hope that the committee will be kept informed.

Richard Simpson has consistently raised the serious issue of half-time salaried staff paying a higher contribution rate than full-time staff. I hope that the Scottish Government will keep in contact with us about that as the negotiations progress. I obviously do not expect the Government to keep up a running commentary on negotiations, which, by their nature, have to take place in private.

Negotiations are taking place—the cabinet secretary has indicated that they have begun since she previously appeared before the committee. I hope that the negotiations on years 2 and 3 are taken seriously by all sides, that they are successful, and that we can have a more equitable solution to the pensions issue that takes account of some of the points that have been highlighted in the debate. On that basis, I am content not to press the motion to a vote today.

The Convener: Drew Smith has indicated that he is not pressing the motion. Do members agree that the motion can be withdrawn?

Members indicated agreement.

The Convener: Thank you very much to the cabinet secretary and her officials for attending this morning.

10:45

Meeting suspended.

10:47

On resuming—

National Health Service (Charges to Overseas Visitors) (Scotland) Amendment Regulations 2012 (SSI 2012/87)

The Convener: We now move to agenda item 2, which is consideration of SSI 2012/87. Members have received a cover note that sets out the purpose of the instrument. The Subordinate Legislation Committee has not drawn the instrument to the Parliament's attention.

Do members have any comments to make? No. Does the committee agree that it does not wish to make any recommendations on the instrument?

Members *indicated agreement.*

Child Poverty Strategy

10:48

The Convener: We move to agenda item 3. I welcome Michael Matheson, Minister for Public Health, and the Scottish Government officials Calum Webster, senior policy officer, welfare division, and Anne MacDonald, statistician, communities analytical services. I invite the minister to make a brief opening statement.

The Minister for Public Health (Michael Matheson): I welcome the opportunity to update the committee on our first annual report on the child poverty strategy for Scotland. As we know, far too many Scottish children live in poverty and the figures have remained steady for far too long. We also know only too well the impact that growing up in poverty can have on children. I am sure that we all agree that we have to focus our energies on reducing the levels of child poverty and the impact that that can have on children in Scotland.

The child poverty strategy, which was published in March 2011, sets out our long-term vision for tackling child poverty in Scotland, and the recently published annual report sets out the shorter-term actions that we have taken since the launch of the strategy.

Our two main aims in respect of tackling child poverty are to maximise household resources and to improve children's wellbeing and life chances. It is clear from the child poverty strategy that we have a range of powers across a number of areas, such as early years, health, education and housing, which we are using to good effect to tackle child poverty in Scotland.

It is also clear to this Government that the issue of child poverty goes beyond income levels, important though they are. I hope that the variety of policy interventions highlighted in the report shows the efforts that we are making to ensure that the effects of child poverty on vulnerable families and children are mitigated across Scotland.

I believe that there is consensus that our approach of early intervention and prevention is the right one, but I know that there are different views on how to take the work forward to best benefit children in Scotland. I can tell committee members that, because of that, I intend to establish a ministerial advisory group on child poverty. I want the group to help me to reflect on the first annual report, to identify priorities and actions that we can take on board for future reports and to formulate strategies as the cycle moves towards publication of the next report in March 2014.

The report acknowledges the vital contribution that local government and third sector organisations have played in tackling child poverty in Scotland. We are doing all that we can to support those partners, despite the challenging economic circumstances.

I am conscious that this is the first time that we have produced a report on the child poverty strategy and I look forward to hearing the committee's questions and observations on the content of the report.

Richard Lyle: I welcome your comments and will home in on your remark that we have tried to maximise household resources. What effect will the UK Government's Welfare Reform Act 2012 have on that strategy?

Michael Matheson: As I said, maximising household incomes is a key part of ensuring that we support families who are in low-income households. They must be able to access the benefits and supports to which they may be entitled. We have expressed some concerns about the impact that the changes to the welfare system could have on lower income families. The Institute for Fiscal Studies has highlighted the potential impact that some of the changes could have on children in the UK and in Scotland. It has demonstrated that the 2012 act could increase the level of child poverty.

We must ensure that we mitigate the impacts where we can. A challenge is that some of the measures that we take to try to assist people in lower income households are about passporting them into particular services or supports. One difficulty with the welfare reform agenda is that it is not clear how some aspects of the universal credit will work and the impact that it will have on passporting through to certain services and supports that we provide.

The 2012 act will clearly have an impact, but the degree and nature of that impact is probably still unknown. We are trying to ensure that we can respond to the information that we receive from the UK Government in such a way as to ensure that the measures that we have in place to support people on low incomes continue to be available to them.

Richard Lyle: In light of your comments, will we meet the targets that we have set ourselves for reducing child poverty?

Michael Matheson: The targets are set out in the Child Poverty Act 2010, which applies to all parts of the UK. As we highlighted in the annual report, it is very concerning that the main piece of independent research that has evaluated the changes that are taking place to the welfare and tax system at a UK level indicates that they will have an adverse impact on child poverty.

I am very conscious that child poverty is extremely sensitive to changes in benefits and taxation and it is clear that the changes under discussion will have an adverse impact in that regard. We will do our best to mitigate matters where we can, but it is difficult to do that in the short term when we do not have control over taxation and welfare policy. We will have to consider what we can do within our existing powers. However, the real impact will come from welfare and tax changes over which we do not have control. I would like us to have such powers and to be able to address issues through our welfare and taxation system, but at present we do not have such powers.

Jackson Carlaw: We all wish you well in the prosecution of this challenge. We are all concerned to see progress on the issue of child poverty. I am grateful for the first annual report and for your being here this morning. Clearly, foreseen and unforeseen challenges will have to be accommodated in the years ahead. I will eschew the opportunity to address them by responding to any kind of potential constitutional arrangements that you might think would ultimately make the challenge easier or less so.

I am particularly interested in whether you can clarify the circumstances that led you to conclude that a ministerial advisory group would be useful to you in this work, when you expect that group to be operational, what thoughts you have given to the composition of the group and what immediate challenge it will set itself to focus on assisting you and the Government.

Michael Matheson: I decided to set up the ministerial advisory group because this is our first annual report and we are in new territory in that regard. I want to consider whether there are better ways of taking forward the report. In addition, given the changing economic environment in which we find ourselves, I want to consider whether we should give greater emphasis to other areas in our social policy. I also want to use people in the statutory and voluntary sectors with expertise in the field to assist us by indicating whether we need to redirect some of our resource and priority and whether there are better ways of taking forward the annual report next year.

I am conscious that we have a vibrant community in Scotland that is passionate about tackling the challenges of poverty. I want to give them the opportunity to work directly with me on shaping policy. The advisory group will be composed of people from the statutory sector and the third sector, but we have not yet decided exactly who they will be. I expect the group to meet at some point between now and the early part of the summer to take a retrospective look over the past year and consider what we have to

do here and now if we need to refocus policy that is in place.

I also want to start some of the early work on considering the next child poverty strategy. It is a three-year strategy and if we start that work now, we can start to put in place some of the means to take forward the next phase of the strategy. The group will obviously also consider issues around the welfare reform agenda, which we are picking our way through. So, it will take a retrospective view, consider the here and now and look forward at the next strategy. As I said, the group will consist of a mixture of statutory and voluntary sector organisations.

Jackson Carlaw: Thank you. I assume that you will be happy to inform the committee and the Parliament in due course when the group is constituted and when it is meeting, so that we are aware that it has embarked on its challenge.

Michael Matheson: I am more than happy to do that.

The Convener: Richard Simpson is next—sorry, Richard, I have jumped forward in the list. It is Adam Ingram next, then it is Richard Simpson.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Thanks, convener—sorry, Richard. You will get in after me.

Dr Simpson: I am happy to give way to your ministerial experience.

Adam Ingram: Minister, you talked about mitigating some of the negative impacts of the welfare reform process. Have you given any thought to how you will use the newly devolved responsibilities that we have on, for example, council tax benefit and the discretionary social fund? Have you considered the impact of universal credit on passported benefits such as free school meals?

The second part of my question relates to the mitigation of the impacts on groups such as single mothers, who are being required to seek work when they still have very young children. That suggests to me that we must do something significant with regard to childcare provision and employability and tie them together. What are your thoughts on those issues?

11:00

Michael Matheson: We are undertaking work on council tax support with the Convention of Scottish Local Authorities, and the cabinet secretary is involved in a welfare scrutiny group, which is looking at the areas that are going to be devolved to the Scottish Parliament. You will be aware that, in the council tax transfer, the UK Government is going to pass over to us the

resource minus 10 per cent. That could have a significant impact on low-income households that are dependent on council tax benefit, so the Scottish Government has said that it will close down that 10 per cent to ensure that people who currently receive that benefit do not lose out.

We are considering a couple of different options for how council tax support should be provided—whether through an exemption process or through a direct benefit process—and we must have the system in place for next year. That dialogue is taking place with different stakeholders and with COSLA to ensure that we have everything in place for the transfer. A considerable amount of work has been done in that area already, and I am confident that we will get a system in place that will continue to meet the needs of those who require the support of council tax benefit in whichever form we decide to continue it.

We are pursuing work on the social fund with stakeholders and COSLA. Our general view is that its purpose should remain largely the same as at present but that it should be delivered at a local level with the rules and regulations applied on a nationally consistent basis. There will be a national set of criteria, but it will be delivered at a local level. We are having discussions with COSLA about how that can be shaped and what it will look like going forward. Our general view is that the fund should focus on two areas: grants and the supply of equipment, such as a washing machine or a cooker that is necessary in a set of emergency circumstances. We think that it should avoid loans, as history shows us that those on low incomes who take out loans through things such as the social fund often struggle to pay them back or do not manage to do so. Our thinking at this point is that the fund should be about grants and the supply of equipment as and when necessary. That work is being taken forward.

As I mentioned earlier, we are doing a lot of work to identify the areas in our own policy responsibility where passporting through benefits is a measure of whether someone is entitled to receive a service or support—for example, a blue badge for disabled parking. The switch to the universal credit will change that, and the possibility of moving to personal independence payments will change it again. In recent months, we have had difficulty in getting sufficient detail from the UK Government on exactly how the universal credit will be applied to allow us to scope out how we will use that model for passporting into the services that we provide. We intend that those who presently receive services by passported means will continue to do so, but it is difficult to scope that out without knowing how the universal credit system will operate. Once we have more detail on that, we will be able to work things out in a much more concrete fashion.

Our general approach will be to protect what passported provision we can under the new system, but that will involve a fair amount of work in a very short timeframe and will depend partly on information that we receive from the UK Government on how the universal credit will apply.

Adam Ingram's final point was about support for single mothers with regard to childcare provision and employability. Those are key areas on which we must focus. We have indicated our intention to increase the availability of free childcare from around 475 hours per year to 600 hours, which is extremely important in supporting mothers, in particular, into employment. The expansion of childcare has been one of the key elements in assisting us to support mothers in that regard.

We have been doing a lot of work on employability through various workstreams, such as workforce plus, and through our skills agencies to support people in acquiring the necessary skills to get into employment. We are refreshing the workforce plus scheme, which dates back to 2006 when the economic and employment market was entirely different, to ensure that it focuses more on the present market. A key part of that will involve employability and ensuring that people get the skills that they require to maximise their potential for employment.

It is important that those workstreams fit together as far as possible. The work that we are doing through the achieving our potential framework and the early years framework involves drawing everything together as effectively as possible.

I hope that the annual report demonstrates the way in which the different policy areas all add to the focus on child poverty. Childcare is one of those areas, along with employability and supporting people into employment, and ensuring that once people are in employment, it pays for them.

I take on board Adam Ingram's point about the need to ensure that things are tied together. As a Government, we are determined to ensure that that happens.

Adam Ingram: I am well aware that while creating policy is one thing, implementing policy is quite another. We need to work with a range of partners, particularly at local level. I understand that a toolkit was produced for local authorities and others to use in tackling child poverty. How successful has that exercise been?

Secondly, we have an opportunity through the proposed children's rights bill to legislate to reduce socioeconomic disadvantage. What contribution will that bill make to addressing some of the tricky implementation issues at a local level?

Michael Matheson: The toolkit, which was made available last year, was one of the recommendations that came out of the Local Government and Communities Committee's inquiry into child poverty in the previous session of Parliament. Feedback from the statutory and voluntary sectors suggests that it has been useful in supporting them in what can be described as poverty-sensitive policy making.

Part of the approach that we have taken is to try to ensure that local authorities and other organisations have information and advice available to them on how to take forward policy development that is sensitive to poverty, and the employability and tackling poverty learning network has done that through the toolkit. The feedback that we have had from both the statutory and voluntary sectors is that the toolkit has been extremely useful.

In addition, the Poverty Alliance is undertaking a piece of scoping work to identify a number of areas in which public agencies have taken forward policy on tackling poverty and to demonstrate how effective that work has been. We can use those examples as case studies so that other local authorities and organisations can learn from them and use the same approaches in their policy development work.

The toolkit is about trying to encourage more local authorities and other organisations to ensure that their policy making is sensitive to poverty, and it appears from those who have used it to be working relatively well. We will continue to encourage local authorities and others to do that.

The proposed children's rights bill will give us a good opportunity to legislate to ensure that there is a more consistent approach to dealing with some of the issues around children and that agencies are working in a focused way, with health boards, local authorities and others working collectively. The bill can help us to put some elements of the work that is currently done by community planning partnerships on a statutory footing, and the Government is considering how we can shape that. We have a good opportunity to consider using the bill as an avenue to put some elements on a statutory footing.

The Convener: Adam Ingram raised a relevant point. There is also frustration that the poverty impact assessment that the session 3 Local Government and Communities Committee recommended, following its inquiry, has not been introduced. We need outcome measurements so that we can see whether what we are doing actually has an effect on child poverty.

An example that has been mentioned—which we also identified in that inquiry—is that because childcare is an important element in the child's life

and the family's life, we should know what effect the expansion in the number of hours of free childcare will have. What is the estimate? The Scottish Government is making a significant investment in the area, so what impact has it been calculated that the measure will have on child poverty? I could ask that question about any measure, but I presume that there are workings and calculations that show that the expansion of childcare will have a positive impact on child poverty.

Michael Matheson: It is difficult to look in the short term at one policy area and say what impact it will have on child poverty. There is no doubt that supporting families through childcare provision and giving people the opportunity to get into employment are key ways in which we can help to reduce child poverty, but it takes time to reach a position in which we can measure the direct impact of a measure; I cannot say to you that a measure's direct impact will be to reduce child poverty by X per cent.

However, we know that childcare is a key element in helping to support families into employment, and we know that employability and employment are key factors in reducing the chances of families being in poverty. I have no doubt that, once the policy has been introduced and we are in a position to measure its impact, we will, as time goes by, get a clearer understanding of the nature and extent of it.

11:15

The Convener: Will the ministerial advisory group that will be set up to help the Government to decide priorities have a matrix or set of expectations in order that it can ensure that priorities are based on the best expected outcomes? What influence will it have on deciding priorities? Crucially, will it be able to discuss poverty impact assessments, the community planning process and single outcome agreements—some of which mention child poverty and some of which do not? Will there be co-ordination of effort and will there be some sort of template to measure outcomes?

Michael Matheson: The purpose of the advisory group is to examine what we have been doing over the past year and what we are doing at the moment, in order that we can find out whether we need to reprioritise certain areas. If we need to look in more detail at, say, childcare and to consider changing our present approach, the group will have the opportunity to have that discussion and to advise ministers on whether they should be doing something else. It will also focus on areas that we should look at in the future.

I understand your point about a matrix and the notion that if we do X, it will have a direct impact on Y. Between the late 80s and the early 90s, child poverty in Scotland was about 28 per cent; according to our most recent statistics, which are for 2009-10, the figure now stands at 20 per cent, although the figure has remained fairly static since 2004-05. Early efforts to tackle child poverty gained in a big way from the direct impact of working family tax credits and the child tax credit.

As I have pointed out, child poverty is very sensitive to changes in taxation and welfare. The fact is that it is not within Parliament's gift to put in place the kind of dramatic policies that could have such direct impacts; we simply do not have control over the tax and welfare system that was utilised prior to 2004-05. We will be able to use various education, health and employability mechanisms as best we can to make an impact on child poverty, but it is often difficult to say that one particular initiative will have X amount of impact. After all, many policies are complex and interrelated.

The Convener: I do not want to go near the constitution question again—we have had too much of that this morning—but I certainly voted for a Government that implemented policies that made a significant change to child poverty. It is not outwith our gift.

Michael Matheson: According to the 2004-05 figures, the level was flatlining. Given that, you have to ask what further measures need to be taken to drive the figure down even more. One can see the difficulties in this respect that are being experienced at UK level, and we must recognise that this is a complex area in which relationships need to be made between policies if we are going to make collective impacts.

The Convener: The previous session's Health and Sport Committee tried to examine that issue. Obviously, we are looking at it again today. The question is what we can do at the present time.

Jackson Carlaw asked about this earlier: which groups have been invited to join the advisory group and what is its remit?

Michael Matheson: No groups have been invited yet, but I can tell the committee that there will be a combination of statutory and voluntary sector organisations.

As for its remit, the advisory group will carry out a retrospective analysis of what has happened over the past year, and will look at some of our current work to find out whether, in this economic climate, we need to place particular emphasis on specific areas and do some forward thinking about policy development for the next phase of the three-year child poverty strategy.

The Convener: Will employers be invited to be part of the group?

Michael Matheson: I am more than happy to consider whether we should have someone from the—

The Convener: I ask because what employers do is so important in relation to many issues. I am thinking about the minimum wage and the Scottish Government's position on child-friendly policies, for example.

Michael Matheson: I have not ruled anyone out, so I am more than happy to consider your idea.

Dr Simpson: The interplay between tax and benefits is complicated, as you said, and what the Scottish Government can do is important. No one has mentioned that the reduction in the percentage of children living in poverty—from about 32 per cent in 1997 to 21 per cent or thereabouts in 2004-05—took place against a background of rising incomes, which is interesting. We define poor households as being ones that have less than 60 per cent of the median UK income: if incomes are rising, it becomes harder every year to achieve 60 per cent of the median.

Now we are in a situation in which incomes are in retreat—we have been discussing pension contributions, which will amount to another 2.4 per cent out of people's incomes this year. I very much welcome the first annual report, but will the Government incorporate into future reports analysis of the complex interplay whereby as incomes go down the ability to reach 60 per cent of the median could be improved without any alteration in income? I am particularly concerned about children in households with less than 70 per cent of median income, which are experiencing material deprivation. If the household income does not change, those children remain materially deprived. We could have a false set of outcomes, which I am anxious to avoid.

Michael Matheson: Anne MacDonald can give a bit more detail about the survey data and the measures. It is worth pointing out that the report uses historical data. Under the Child Poverty Act 2010 we are required to publish the report in March each year, but the survey data do not come out until June and it might be two or three years down the line before we have some of the other survey data that we will use. It is difficult to ascertain where we are now from looking at the annual report.

Next year we will have updated data, but it might be a couple of years before we have the data on elements of the four areas that we must cover. I think that we have until April 2015 to get the data, which are compiled at UK level and developed by the Department for Work and

Pensions. The issue is not that the DWP is being slow but that the child poverty reporting cycle does not fit in with the survey cycles.

There are other challenges for us in getting data. Some data are based on the current welfare system, so when the system changes we will not have a comparative data set. A number of surveys measure different aspects of the targets in the 2010 act, so there are difficult issues. Anne MacDonald will talk about the challenges in more detail.

Anne MacDonald (Scottish Government): Richard Simpson's point illustrates exactly why there is not just one indicator or target on poverty, but a range. The relative low-income target—which relates to households on 60 per cent of the median income—looks at how people are faring relative to the rest of the population. As Richard Simpson said, if the rest of the population is not doing so well, curious things can happen with income distribution, so we might not pick up poverty in the way that we expected.

There is also the absolute poverty measure, which considers how incomes change in real terms over the years. The measure should track in real terms whether the poorest people in society are experiencing a rise in incomes.

Another target that Dr Simpson mentioned involves a combination with material deprivation. That involves asking questions about whether people can afford to have a winter coat or two pairs of shoes, or to allow children to have friends round for tea. Such questions have been developed to look at what people think are basic norms of society. Combining low income and material deprivation is intended to overcome the difficulties in having straight relative low-income targets.

That is why there is the range of indicators. The persistent poverty target covers people who are consistently in poverty for three of any four years—people who are still in poverty year after year. There is, in the 2010 act, a range of measures rather than one single indicator.

Dr Simpson: That is helpful to have on the record; I know that the information is in many documents. In the current circumstances, those who are in material deprivation and persistent poverty interest me particularly. If we are able to focus on those two groups, we should do so.

Within those groups, I am particularly concerned about looked-after children broadly and about kinship care. The Government attempted to hand a national kinship care policy to local authorities, but the variation between local authorities has been massive and that has had a significant effect on that group, which has a particular problem. When the minister's advisory group starts to have

discussions, I hope that it will examine how to develop a consistent kinship care policy, which I know the Government desires.

I am interested in the role of credit unions. As we move into much greater austerity and stringency, those who are in employment but have very low wages will often be forced to borrow money. The press have debated the huge interest rates on pay-day loans, although such loans are a more desirable alternative to the street credit in some of the communities that I represent, where people give illegal loans. Will you comment on progress in supporting credit unions to have a much stronger role in providing temporary credit to individuals who find themselves in relative or absolute poverty?

Michael Matheson: Credit unions have a valuable and important role. In recent times, we have done work to strengthen and support that. Dr Simpson is right that, in the present economic climate, credit unions can play an invaluable role for people who are in difficult financial situations, so there is an opportunity for the advisory group to consider whether we need to focus more on such areas, in the light of the changing economic environment in which we find ourselves. That would fit in with our achieving our potential strategy and would have a direct impact on children in poverty. The group will give us an opportunity to consider further direction or support, if that is needed. I am with Dr Simpson on the role that credit unions can have, particularly in the present economic environment.

Drew Smith: I have a couple of specific questions. You mentioned the 10 per cent cut in relation to the council tax benefit changes and I think that you used the phrase “close down”. Are you suggesting that the Scottish Government will fill that gap?

Michael Matheson: Yes.

Drew Smith: That is great.

We have discussed the relationship with local government. Will single outcome agreements be renegotiated after the local government elections? Will you seek to change the priorities in what we ask local government to do on child poverty?

11:30

Michael Matheson: A number of the single outcome agreements—if not most of them—identify poverty as a priority. In our discussions last year with local authorities and community planning partnerships around single outcome agreements, tackling poverty was one of the four key areas that we highlighted that we want to address, and we intend to continue to focus on that area.

I am not in a position to say whether there will be a renegotiation of the process after the elections—I have no doubt that the Cabinet Secretary for Finance, Employment and Sustainable Growth will want to make a decision on that himself—but tackling poverty continues to be a focus for us. No local authority in the country does not view tackling poverty as a priority. Local authorities will take different approaches and we will continue to provide them with support, assistance and guidance to enable them to do that. Local authorities and community planning partnerships have already made clear commitments, which will, I have no doubt, continue post the May elections.

Drew Smith: I have two slightly broader questions to ask, if time allows. The first goes back to what you rightly said about the effect of the changes in the tax and welfare systems around the time when we saw some of the big advancements in Scotland. It is fair to say that the level of child poverty fell faster in Scotland at that time than it did in other parts of the UK. Do you have a view on why that happened that would suggest that there are other things that we could do within a devolved context, or do you stick to the view that the primary driver was changes in the tax and welfare system and that, although there might have been specific things going on, there are fewer lessons to learn from them?

Michael Matheson: I mentioned the early gains and that the level of child poverty has largely been flatlining since 2004-05. There is no doubt that child poverty is sensitive to welfare and tax issues, and there was a marked impact during that early phase. However, there will have been other factors at play around childcare provision and employability, which Richard Simpson referred to in terms of the employment market. Incomes were different at that stage, as well.

If it were possible to isolate two or three specific things that would eradicate child poverty, it would have been done years ago. A number of factors interplay with one another. I would hesitate to say that, if we focused on a couple of areas, that would help to bring down further the level of child poverty. Childcare, employability and maximising people's incomes are key areas. The Government's overall strategy is on early intervention and preventing children from missing out on opportunities because of their household circumstances.

A complex range of issues interplay to have an impact, so it would be wrong to suggest that only a couple could have a marked impact. It is clear that child poverty is sensitive to welfare and taxation and that they have an impact, but they are not the only aspects that we must consider when it comes to tackling child poverty.

Drew Smith: I thank you for that. I welcomed the annual report; I was frustrated with the lack of current statistics, but you have explained some of the reasons for that. It is good that a group is being brought together to consider the usefulness of the report. If the report is not combined with statistics, it perhaps needs to perform a different function. The first report will perform the useful function for Government of drawing together the different things that are being done. However, to produce it annually and not relate it to statistics would make it less valuable over time, so I welcome the establishment of the group.

The criticism has been expressed to me—I do not necessarily subscribe to it, but I would like to hear your response to it—that what is in the report clearly stacks up as being about tackling child poverty rather than about tackling poverty in general. We all support tackling poverty in its broad sense, so it is not necessarily an either/or situation. To what extent do you have a distinct child poverty strategy?

Michael Matheson: I will deal first with the annual report, about which Drew Smith made a valid point. I am frustrated, too, that production of the report is not aligned with statistics being published. Our difficulty is that we must by law—under the Child Poverty Act 2010—publish the report at a particular time. We have discussed the issue with the UK Government and have highlighted that it would be helpful if we could realign the publication of the annual report so that it is published after we have the new data set. The report would then provide something much clearer for comparing one year with another. We will continue to have discussions with the UK Government on that because such a realignment would make the report more meaningful and helpful.

On the other aspect, I think that I am right in saying that there is no prescription on what must be in the annual report. Is that right, Calum?

Calum Webster (Scottish Government): There are elements of prescription in the 2010 act, but it does not preclude our including other things in the annual report.

Michael Matheson: I want the advisory group to consider this year's annual report and to decide whether we should put something different in next year's and, if so, what that should look like and how we should take it forward. It would make more sense, from my point of view, if we could align the publication of the annual report with when we get the new data, which would make the report more meaningful. I understand and share Drew Smith's frustration in that regard.

The achieving our potential framework is our overarching poverty policy, which sits alongside

the two other key social policy approaches—the equally well health framework and the early years framework. They all have distinctive parts to play: the early years framework takes a preventative approach with children, the equally well framework takes a preventative approach to tackling health inequalities in some of our most deprived communities, and the achieving our potential framework is our overall anti-poverty strategy.

We have a specific child poverty strategy because the Child Poverty Act 2010 requires us to address child poverty and we want to ensure that we have a strategy to help us to achieve the objectives that the 2010 act sets. The child poverty strategy sits within, or is supplementary to, the three overall social policy areas, which means that it gets a focus.

The intention of the achieving our potential policy is to deal with poverty as best we can. It is fair to say that if we deal with poverty effectively, that will have a direct impact on child poverty. Lifting mums and dads out of poverty assists in lifting children out of poverty. However, the child poverty strategy reflects the fact that we have legislation in that area and we want to ensure that the strategy sits alongside the three key social policy areas.

Jim Eadie: I have two questions. One is about the link between deprivation and poor educational attainment and the other is to ask for an update on the early years framework. The link between deprivation and poor educational attainment has been well documented. What specific measures and interventions are being implemented to address that issue in deprived areas? What opportunity exists for the ministerial advisory group to address such issues directly and to evaluate and monitor progress?

Once you have addressed those questions, I will come back to the question on the early years framework.

Michael Matheson: The curriculum for excellence gives us a great opportunity to address the educational attainment of children from disadvantaged communities because it gives teachers much more flexibility in taking forward education at local level.

However, we should not get into the mindset that low educational attainment is inevitable in deprived areas. Clearly, schools in certain communities with catchment areas that cover deprived and low-income households are achieving very good educational standards. We must ensure that we build on that good practice, which is what some of the work that my colleagues in the education department are doing is about. We want to ensure that we can utilise the gains that have been made in some schools and roll

them out to other schools in similar situations, and that we have a curriculum system that is flexible enough to allow schools to respond to the different needs of their students.

Jim Eadie: Is work being done on how the successful approaches in schools in some deprived areas can be rolled out in other areas?

Michael Matheson: I know that colleagues on the education side are looking at using the experience that they gain from schools in those areas to encourage other schools, and that they use case studies and so on to share that learning. If Jim Eadie wants detail about what is happening on the ground, I am more than happy to follow that up.

In all policy areas, where we in Government can learn from one area of work in one part of the country, we should use that, build on it and share the experience with others. It is important that we do not begin to think that it is inevitable that a poor background will cause poor educational attainment. Some schools are demonstrating that that is not necessarily true, if the right approach is taken.

Jim Eadie: What about the ministerial advisory group?

Michael Matheson: I have not limited its remit to childcare or income maximisation. If the advisory group needs to look at educational attainment and how it fits in with other policy areas, it will have the opportunity to do that.

Jim Eadie: In November 2011, a task force was established to implement the early years framework agenda. What progress has been made? How successful have you been in co-ordinating the efforts of the Scottish Government, local government, the NHS, the police and other agencies?

Michael Matheson: The early years framework sits on the education side rather than being my direct responsibility. We published the framework jointly with COSLA in 2008, and then we reconsidered some aspects of it, and reviewed what we had learned from our experience over the past couple of years. I understand that a paper has been developed and is being made available today that sets out the vision and priorities. That work is pertinent to today's discussion. It focused initially on the strengths of universal services, prevention and early intervention, guidance to community planning partnerships, the quality of early years services, and getting better value. That work was published today, and I have no doubt that education colleagues will look to respond to it and look at how we can build on the progress that has been made.

Gil Paterson: Child poverty does not come without parent or guardian poverty—you alluded to that yourself. Parent poverty is closely associated with unemployment, low-wage employment and benefits. The controlling factor is often the UK Government, so it is vital that we continue to have dialogue with the UK Government so that we can get the best results. In your opening statement, you alluded to the fact that communications might be good but outcomes are less positive. Will you expand on that point?

Michael Matheson: During the past year, the Scottish Government and the UK Government have had a lot of dialogue and discussion about the welfare reform agenda. The Parliament partially agreed to a legislative consent memorandum on some of the proposed changes. Those discussions will continue. The UK Government is in no doubt about our areas of anxiety. We are limited in what we can do. Part of the challenge that we will face in the next year is that of making sure that those areas for which we take responsibility work effectively. A lot of the energy that we are putting into that work involves engaging with a range of stakeholders who can assist us in making sure that the system that we must have up and running next year delivers what we intend it to deliver.

11:45

We also face a challenge around passporting, to do with lack of information. We depend on getting information from the UK Government. I do not want to give the impression that the UK Government is withholding the information just to wind us up, but there is an issue about the development work that it is doing. As the UK Government develops its thinking and the detail around some of its policies, I have no doubt that it will share the information with us. However, it creates a serious challenge for us to make sure that in a compressed timeframe we are able to respond to that information as soon as we have it. The earlier we have it, the better placed we are to measure the impact on passported services.

It is a frustrating situation, but we are dependent on information from the UK Government. We will continue to work with the UK Government as constructively as we can to get the information to assist us in the policy work that we need to take forward. We have to do things in a compressed time frame, which, given the complexity of these matters, we do not necessarily want.

Gil Paterson: Obviously, poverty—whether child poverty or otherwise—is not restricted to Scotland. It exists in fair measure in Wales, Ireland and, indeed, England. People in some parts of England suffer almost as badly as we do in Scotland. Are you in dialogue with the devolved

Administrations, even if for nothing more than to focus the UK Government's attention on the resource element? I understand what you said about the information that you require, but from my perspective the problems associated with poverty, and child poverty in particular, are about resource. Of course, we anticipate an even tighter squeeze on that. If the devolved Governments spoke collectively on the same issues, would that focus attention in Westminster?

Michael Matheson: I know that fairly regular dialogue in formal structures takes place between ministers in different UK Administrations.

It would be fair to say that an important element in tackling overall poverty is to grow the economy and create employment. We have highlighted our frustration at the UK Government's approach; we believe that it is cutting too deep and too fast in key areas. That is having an impact on capital spend, which can directly impact on creating employment and incomes for individuals. The most recent example is the £300 million-worth of shovel-ready projects that we were asked to put forward and for which we still have not been able to get the response that we are looking for. Those would have a direct impact on creating employment, putting money into people's pockets, so there is an element of frustration from our point of view.

I am not sure whether the Northern Irish Government or the Welsh Government was asked for a similar set of projects that could be moved forward. We do not believe that the UK Government's approach helps us tackle some of the areas around poverty. That is why we do what we can in mitigation, such as accelerating capital spend to try and support employment through various public sector projects.

Gil Paterson: I was thinking more of the Welfare Reform Act 2012. I suspect that our colleagues elsewhere in the United Kingdom are going to come under the same cosh, and there might be a positive response to a collective approach as opposed to a lone voice. I suspect from what you have told me that that is already taking place.

Michael Matheson: Yes.

The Convener: We have made good progress. However, there is one issue that has not been mentioned, which is the importance of the living wage. I think that we are all in agreement on that. The Government has supported it and there has been some success in the public sector. We should ask what progress has been made in the public sector, what further progress could be made, and, indeed, what efforts there are in the private sector to encourage employers in Scotland to pay the living wage.

Michael Matheson: As of this month, all employees in departments and organisations where the Scottish Government has direct control of pay policy are required to receive a minimum of the living wage. Obviously, it is for local authorities to decide whether to move towards a living wage; quite a number have done so and we will continue to encourage the others to do the same.

There has also been some debate in Parliament about extending the policy to private sector organisations involved in public sector functions or contracts. However, such a move might raise issues with European legislation and Alex Neil has written to the European Commission seeking clarification as to whether including a requirement for the living wage in procurement policy would cause problems at a European level. We are still waiting for the Commission to respond but we will certainly examine that response once we receive it. In fact, it is important that we do so, given the public procurement bill that will be introduced later in the year, but we will have to wait for the Commission's response before we can decide whether to take the issue forward.

The Convener: I am more interested in the dialogue that is happening at a lower level. I realise that the Local Government and Regeneration Committee has examined the matter and that it is perhaps difficult—indeed, impossible—for some people to consider such a policy at this time. Has the Scottish Government discussed with the Federation of Small Businesses, the chambers of commerce, the Confederation of British Industry and so on the possibility of moving Scotland's employers towards a living wage economy? For example, are the employers involved in the Parliament all paying the living wage?

Michael Matheson: We are leading by example on this matter. In areas where we control pay policy, the living wage is the minimum for all staff, and we have said very clearly that we want companies to consider paying individuals a living wage. However, until we understand EU law in this area a bit more, it is difficult for the Government to say clearly to employers, "We expect you to pay the living wage," and to enforce that in any meaningful way. We can lead by example and encourage but it is difficult to take direct action until we get that clarity. Indeed, if I recall correctly, the Local Government and Regeneration Committee's report on the living wage acknowledged some of the challenges and broadly supported the position that the Scottish Government is taking until we get further clarity about the law.

The Convener: I was not encouraging you to enforce the living wage; I was simply trying to establish whether it was your job or the job of

some other minister to discuss Scottish Government policy in this area with the private sector in Scotland. Many of those employers will be paying the living wage, but some of them will not be and I was wondering whether you were able to encourage them to consider the benefits that, as we believe, the living wage can bring to families' income and the wider economy.

Michael Matheson: The Cabinet Secretary for Finance, Employment and Sustainable Growth is responsible for living wage policy and any decisions in that respect.

The Convener: Thank you.

There was an absolute assurance that the 10 per cent gap in council tax benefit would be filled. Just for clarification, how much will such a move cost and how many children will benefit from it?

Michael Matheson: I can come back to you with specific details about that. We are trying to ensure that those who receive support from the system in its present form continue to receive it once it is devolved to the Scottish Government. However, the danger of top-slicing 10 per cent is that such a move might penalise a significant number of individuals. I can come back to the committee with specific figures.

The Convener: I just want to know how much that priority will cost the Scottish Government and, in the context of child poverty, the number of children who will benefit from it.

Michael Matheson: I will come back to you with specific figures.

The Convener: I would appreciate that.

As there are no further questions, I express the committee's appreciation to the minister and his colleagues for their attendance and the evidence that they have provided.

European Union Legislative Proposal

11:55

The Convener: Agenda item 4 is consideration of the European Union legislative proposal to amend the directive relating to the transparency of measures regulating the pricing of medicinal products for human use and their inclusion within the scope of national health insurance systems. The proposal may raise questions in relation to subsidiarity.

As Richard Lyle is the committee's European reporter, I ask him to comment on the proposal.

Richard Lyle: All members have the cover note. The transparency directive was originally adopted in 1989. The UK Department of Health has the lead responsibility on the matter, but the Scottish Government holds an interest in relation to its responsibilities for public health and healthcare provision. The revised directive will be legally binding on the UK.

The transparency directive sets procedural requirements to enable the pharmaceutical industry to verify that national measures do not create barriers to trade that are incompatible with the free movement of goods. On 1 March 2012, in light of changes to the regulatory framework for medicines and changes in the approaches of member states to the pricing of medicines, the European Commission published proposals to update and simplify those procedural requirements. The aim is primarily to streamline the process and to reduce the time that it takes for national decisions to be made on pricing and reimbursement of medicines so that such decisions are, as a rule, taken within 120 days for innovative medicines and within 30 rather than 180 days—as is currently the case—for generic medicinal products.

The salient points to note are that detailed discussions are expected to begin at a meeting of the Council working group on pharmaceutical and medical devices that is scheduled to be held this week, on 20 April 2012, and that the presidency will consider a revised directive on 22 June 2012.

The committee has two choices. It can note what I have said and decide to take no further action. Alternatively, it can monitor the progress of the proposal in the longer term and write to the Scottish Government to ascertain its position on the matter and to find out the anticipated impact, if any, on the quality of healthcare and the costs to the NHS in Scotland; what discussions the Scottish Government has had with the Department of Health concerning the proposal and the nature

of any such discussions; and whether it shares the view of the UK Government that

“the consistency of the Commission’s proposal with the principle of subsidiarity has yet to be examined”.

It is for the committee to make that decision.

The Convener: Thanks. Do members have any comments?

Dr Simpson: I have just one comment. There have been discussions in the UK for some considerable time about moving from the long-established pharmaceutical price regulation scheme system to a value-based system. From reading the documents that we have before us, that seems to be quite important to when the directive might be enacted, so I suggest that we should go for the second option rather than the first one. We should also do so because of another matter that is peculiar to the current situation, which is the highly significant and unresolved issue of export. I do not know how relevant that is to the Commission proposal; Richard Lyle may know about that.

There is a continuing problem of restriction of supply by the pharmaceutical industry to reduce the likelihood of export by pharmacists, a number of whom still export. The result is that some of my constituents face considerable anxiety about the supply of their prescription medicine. The Royal Pharmaceutical Society, the community pharmacists and the pharmaceutical industry appear to have been unable to resolve the issue amicably between them in a way that protects patients. I find that very disturbing.

I do not know—and I cannot work out from reading the cover note—whether the new transparency directive, which relates to the export or transfer of goods, will make the situation better or worse. That is another reason why I would like the second option to be followed.

Richard Lyle: I agree with Dr Richard Simpson’s comments. In order to alleviate his constituents’ concerns, we may wish to put the issues that he has raised to the Scottish Government, which in turn could contact the UK Government.

The Convener: Is everyone content with that approach?

Members *indicated agreement.*

The Convener: We will go for the second option then. Thank you.

NHS Boards Budget Scrutiny

12:00

The Convener: Agenda item 5 is consideration of our approach to NHS boards budget scrutiny. We welcome Dr Andrew Walker, our trusted adviser. Members will recall that the committee agreed to seek responses from all 14 territorial health boards and eight special health boards to a series of questions regarding budget allocations. The responses are helpfully laid out in a good briefing paper that we have all received—the report on the NHS boards’ responses to survey on budget plans 2012-13, which is paper HS/S4/12/13/12. I invite Dr Andrew Walker to comment on the paper. Before he does so, he wishes to make a brief declaration of interests.

Dr Andrew Walker (Committee Adviser): The paper mentions prescribing cost pressures. As committee members know from when I was appointed, I have had an on-going involvement with the Scottish Medicines Consortium; I also do consultancy work for some pharmaceutical companies. I do not think that those interests have influenced my opinion, but I prefer to flag them up to the committee before I advise members on lines of questioning rather than the issue coming up afterwards.

The Convener: We appreciate that.

Dr Walker: Roughly how long do I have to brief the committee, convener, in order of magnitude?

The Convener: Proceed.

Dr Walker: Okay, the rest of the day it is then. That is not a problem.

The Convener: You have done this before, but I do not want you to be caught short. We have scheduled about half an hour for this, but we are running a bit behind.

Dr Walker: That is no problem at all. I will aim for a maximum of 10 minutes.

The Convener: That would be great.

Dr Walker: First of all, thank you to everyone who helped me with this work behind the scenes—especially to Nicola Hudson from the Parliament’s financial scrutiny unit, who gave me considerable help.

The context is that there has been on-going concern from this committee and from predecessor committees about the level of scrutiny we can get to with the national draft budget that we see, in terms of how we can scrutinise things at the health board level—the £8 billion or £9 billion out of the £11 billion

allocation—and how we can tell what the health boards are doing with that money.

Two years ago, the predecessor committee agreed that a survey should go out to Scottish health boards. The current survey is really a repeat of that survey, with some added questions that are relevant to the current committee's discussions. The details of how the survey was carried out are covered in the paper. Suitable caveats are given, which we will come to as we go through the paper.

The first question, on page 2 of the paper, is about earmarked funding. When the Government earmarks funding before it hands it down to local boards, it directs where the spending will go. There are quite legitimate reasons for earmarked funding—the aim of the question was to find out the extent to which it was happening and how it was changing over time.

The key finding is that about 12 per cent of NHS revenue allocation is earmarked for particular purposes. If anything, earmarked funding is falling slightly over time as things move from being earmarked to the mainstream of allocation. Personally, I was quite surprised by that. If I had been asked to guess what proportion of the allocation was earmarked, I probably would have gone for about half that figure. We tried to keep the survey brief in order not to impose big burdens on health boards in terms of filling it in, so we did not ask what exactly boards meant by earmarked allocations. We can ask boards to define that before we hear oral evidence from them. To summarise, 12 per cent of the allocation—or around £1 out of every £8—is allocated to Scottish health boards for an earmarked purpose and that percentage is falling slightly over time.

The second part of question 1 was about the level of non-recurring funding. Of course, there can be legitimate reasons for handing out money on a non-recurring basis, but members might recall that in the middle of the previous decade Audit Scotland found that some boards seemed to be relying on non-recurring funding to keep going. Therefore we were looking for danger indicators, as it were. Are boards getting hooked on non-recurring funding? The table on page 4 indicates that NHS Dumfries and Galloway seems to have quite a high level of non-recurring funding, as do NHS Lanarkshire and NHS Fife.

We did not ask specifically what the funding was for. NHS Fife helpfully supplied the information that the funding was intended to help the board while it had a major capital scheme on the go. The committee might think that that is quite legitimate; it would be nice to know why other health boards had a high level of non-recurring funding, because we do not want boards to depend on such funding to achieve financial balance from year to year.

Question 2 was about the balance between spend on acute services, primary care and community services and other services—the heading “other” was poorly defined, and boards did not interpret it in the same way. I did not present the information by board, because the results in the category “other” went from 1 per cent in some boards to 30 per cent in others, which implies that boards interpreted the question in different ways. The broad picture seems to show a balance of about 48 per cent of spending on acute care, 45 per cent on primary and community care and about 7 per cent on other services.

A key issue for the committee will be to monitor the balance and look for signs of change. We probably would not expect big changes year on year, but we might hope for progress in the shift to primary and community care over five years. I guess that question 2 was an attempt to put down a marker—it might or might not have worked. We can perhaps talk about that after my presentation.

Question 3 was a key question about inflationary pressures and where boards see cost pressures coming from. Boards were asked about their planning assumptions on pay increases, increases in the cost of supplies—a big element is energy costs—general practitioner prescribing and hospital prescribing. We can see that the assumed pay increases are relatively modest. Some boards seem to have included the incremental change year on year as people become more senior and move up the pay scale; others might not have included that—again, that flags up that boards might have interpreted the question in different ways. There are therefore all sorts of issues to do with comparability, but the responses give us a broad-brush picture.

Another thing for the committee to bear in mind is that given the proportion of the NHS budget that goes on pay compared with the proportion that goes on prescribing, a 1 per cent increase in pay is roughly equivalent in cash terms to a 5 per cent increase in prescribing. Although the big numbers are on the right-hand side of the table on page 6, they are percentages and do not necessarily mean that that is where the cash is going. However, from my conversations with people in health boards, I think that prescribing is the most volatile and unpredictable issue, which causes boards the most concern year on year. I know that the committee has been considering petitions on access to specialist medicines, which I guess is relevant in that regard.

Question 3 was about where cost pressures are coming from; question 4 looked at the other side of the equation and asked how boards are planning to make savings. We asked what levels of savings boards will make, under what headings. Members will correct me if I am wrong in saying that the

Scottish Government has not issued a national target for savings at health board level in 2012-13 and boards have been left to a greater extent to make local decisions.

The table on pages 7 and 8, on planned savings, shows some diversity. The highest figure is from NHS Shetland, which is targeting 6.6 per cent of its revenue allocation for savings; the lowest is from NHS Grampian, at 1.7 per cent. There is a big variation there, but most boards are planning savings in the range of 2.5 to 3 per cent, which is a fairly standard picture and is in line with the situation during the past couple of years. Boards appear to have achieved their savings—they are always concerned that they will not do so, but somehow or other they always manage.

In general, this presentation focuses on the territorial boards, because they control the majority of the budget, but we must not forget the special health boards. The table on pages 7 and 8 includes the special health boards, which generally have higher savings targets than the territorial boards have—the exception is NHS Education for Scotland, which is the biggest of the specials and pulls the average down a little. That is just a snapshot of what is going on. As far as we know, there is comparability on that question, so you are free to run your eye down the columns in the table and look at the differences. In the oral evidence sessions, we could ask whether the targets are achievable and whether the savings are recurring savings or one-off savings.

The second part of the question asked health boards to name their three main areas of savings. We used the tactic of asking about the three main areas because, two years ago, some boards provided us with whole Excel spreadsheets with 200 savings schemes in them; that was interesting but also hard to digest, so we asked for the headline savings.

The boards had a variety of things to say. I have tried to group the responses as sensibly as I can under four headings. Prescribing was mentioned by almost all the boards, so those issues were easy to group. I tried to group a bunch of things that seemed to relate to front-line services and were described using terms such as redesign, clinical services and clinical productivity. Another group of issues seemed to be about support services and included things such as laboratories, administration and management.

There was an issue for smaller boards—especially rural boards—about money following the patient. Members will be aware that when a patient from one health board goes to another health board for treatment, the board for the area in which the patient is resident is billed for that care, so if smaller boards can keep their patients in their local hospitals, they do not have to pay the

bills that boards with teaching hospitals will send them.

Roughly speaking, all the boards seem to have something under most of the headings. When there is a blank in the table, it should not be assumed that that board is doing nothing under that heading. I remind the committee that we asked boards to name only their three main areas of savings. I would be very surprised if, for example, NHS Tayside, NHS Highland and NHS Borders were doing nothing on prescribing; they just did not mention it in their top three areas.

We must therefore be a little bit careful about how we interpret the information. However, bearing that in mind, about 40 per cent of the savings seem to come through prescribing, about 40 per cent seem to come from support services and about 20 per cent seem to be about the redesign of front-line services to achieve efficiencies. That is a broad-brush picture, but it is the sort of thing that the survey was meant to look at. There are issues about how we ensure that quality is maintained while the savings are made.

Question 5 asked about what we call service developments—ideas for new services, new staffing and so on—and whether those were being funded to any extent this year. The first part of the question asked for three examples of things that were funded by health boards. A wide variety of things is listed in the table. A strong theme among the boards in the north of Scotland is the regional secure unit—the forensic psychiatry service. Other than that, the examples that are given relate mainly to acute services or to medicines. There is very little about health promotion or primary care. Although some examples relate to those areas, they are mainly about acute services and medicines.

We also asked the corollary, about things that the boards regarded as priorities that were not funded. The responses included an equally wide range of services. Five boards said that there was nothing that they regarded as a priority that they could not fund, which might raise an issue about what they term a priority. It is interesting that, although we are into the fourth or fifth year of a financial crunch, some boards still feel that they can fund everything that they regard as a priority.

Some boards perhaps entered into the spirit of the question slightly more than others. NHS Lothian and NHS Lanarkshire both gave interesting answers. They listed some fairly important services that they could not afford to fund. None of the services was in areas that might really worry us such as cancer or heart disease, but I imagine that they are all important to certain patient groups.

Question 6 picked up on preventative programmes, which the committee discussed in autumn last year, and on what potential there is for longer-term savings when those are funded. I remember that the committee took oral evidence on a variety of health promotion programmes.

We asked the boards what they were funding, but we did not present that evidence in the paper because a rich variety of programmes was funded. The more interesting question for the committee's purpose was whether the financial planning included savings that would stem from the preventative programmes. All the boards agreed that there was the potential to make savings, but none stated that it included in its financial planning cash-releasing efficiency savings from preventative services, which was quite interesting. They gave various reasons for that, the first of which was the time horizon involved, especially with health-promotion-type preventative spending, from which it might take decades for savings to accrue. Boards made the point that financial planning in the NHS is usually a three to five-year exercise, and 30-year to 40-year savings might be involved. As the paper says, the second reason that was given was that it is

"Difficult to obtain evidence for cost savings because they are in the long-term".

The third reason was to do with uncertainty

"about the method for determining long-term savings",

and the fourth, catch-all reason was that

"Prudence requires not including savings in the financial plan."

12:15

I reproduced in full quite a good quote from NHS Lanarkshire, which is to do with the fragile nature of savings in the view of NHS managers, especially when they can easily be swamped by other pressures in a service in the medium to long term. All that can be said at the end is, "We are under financial pressure, but things could have been worse if we had not made preventative service investments several years before." That was interesting, and it perhaps had more resonance with me than the timeframe issues that boards talked about.

Members will know that the use of the change fund could also be described as preventative, and we do not have timeframe issues there. If services for older people are invested in now, we should really see pay-offs in two to three years, but boards said that they do not include those savings either. I suspect that the true reason for that is to do with what boards see as the fragile nature of those savings. With another trend coming in the opposite direction, they can simply be swamped by an increase in demand from another area of the

service. To put things differently, a built bed is a filled bed. If a bed in a hospital is lying empty, a doctor will find somebody else who is in need to put into it.

Two boards—NHS Orkney and NHS Shetland, which, as we all know, are smaller boards—said that they were planning to estimate financial savings in the future. It will be interesting to see whether that comes to pass.

That is probably enough on that matter.

Question 7 was the central question of what boards saw as the main risks in their financial plans. I think that those factors are fairly stable over time—I remember them from two years ago. Prescribing costs are seen as a factor, mainly because of their volatility, I suspect. There are formularies or approved lists of medicines, but there is also a lot of scope for doctors to make prescribing decisions. Guidelines can be produced, and quite a lot of volatility is involved.

As the paper says,

"almost all boards stated that the achievement of their efficiency savings plan was a risk"

because the plans are getting very big and complicated, and more medium to high-risk areas have to be taken in to try to make the savings happen. NHS Lanarkshire made the point that there was no reserve, so if the savings plan does not work, it will be looking at a deficit.

Several boards mentioned capital issues, including capital cuts, and volatile demand, referral patterns and a variety of board-specific factors were mentioned. It is interesting that pay is not regarded as an issue. It seems to be not as volatile, and boards possibly feel better able to keep control of it.

The committee may wish to question boards on how they go about mitigating those risks and what they are doing to try to bring prescribing costs back into a more controlled situation.

Questions 8 and 9, which were both a different type of question, were to do with issues around change funds and resource transfer. They were essentially about things developing. We talked about that last autumn and thought that things would have moved on by the spring. Sure enough, boards are starting to make their allocations. Essentially, information about that was asked for, and it is tabulated. The headings in the table did not quite work, but there is enough for members to be able to see roughly what is going on.

The information in the table is about the change fund for older people and how it is being allocated. The central part of the table shows the contributions from local authorities and the right-hand part shows transfers from the change fund to

the third sector. We can see that there are some quite big variations in the contributions from local authorities. I am not clear whether some transfers are still to be agreed. There are also some big variations in the transfers from the change fund to the third sector, at least in proportion terms. Those are obvious areas in which the committee might wish to ask witnesses for more detail, to get behind the figures.

Question 9 was about resource transfer. One of the witnesses suggested that we ask about that, and it seemed a good point as the committee had not asked about it before. It turns out that the amount that is being resource transferred from health services to local government is more than three times the amount in the change fund. The possible issues there include the extent to which the money is ring fenced for particular patients, because this was originally brought in when people were being resettled from long-stay hospitals into the community; to what extent it is still providing services for those particular patients; and to what extent it can start to be seen as an extension of the change fund, assuming that the committee believes that the change fund represents the right way in which to go forward. We do not have answers to those things, but at least we have some magnitudes to talk about. Finding out that the amount is three times the size of the change fund was new information, at least for me.

Going back to the change fund and thinking about the way in which it is being spent, I note that there is a real emphasis on preventative spending. If we can judge anything from the headings under which money is being spent, little of it is going directly into or supporting hospital-type care, so it seems to be following the spirit of the change fund. It is notable that, in marked contrast to the service development things that we looked at earlier, where a lot of the money is going into hospitals, the change fund seems to be going into keeping people out of hospitals. That is an interesting contrast.

I am nearly there. Question 10 was about another of the committee's interests from the inquiries that it held in the autumn—the switching of services from ring-fenced funding to mainstream revenue funding, and whether things ever made it or whether they were lost. The wording of the question did not quite work; some boards appeared to believe that we were asking about switching earmarked national funding streams to the local level, which is not quite what we were interested in. A few boards managed to work out what we were asking about, and I think that NHS Borders came closest to the spirit of the question with its answer about its healthy living network, which was a pilot but is now being switched across. The board described the

monitoring that it plans to keep in place to ensure that the network continues to do the job that it was intended to do.

The range of answers to question 10 was a little disappointing, but there are interesting questions about whether such work is going to pan out, how much it will cost and so on.

Question 11 was about provision for equalities groups and the monitoring of outcomes. I do not claim to have any special expertise in that area. As a white man with no obvious disability etc, I feel underqualified to talk about it. All that I would note is the wide variety of answers that came back from the boards and the considerable variation between them, which members might wish to inquire into.

I remind members that we have an oral evidence session reserved on—I believe—1 May. There are no definite plans for how to arrange that. The previous committee arranged the session into two halves and had two panels of boards, although I think that there was some overlap between them. Members might wish to arrange the meeting in that way and have a panel of urban boards first and a panel of rural boards second, or they might wish to have territorial boards on the first panel and special boards on the second. I have said little today about the special boards as the survey was not really designed for them.

A third possibility is to have a selection of boards in the first half of the meeting and the Scottish Government health directorate in the second half, so that the committee can ask the people who are overseeing the financial monitoring of the system some of the broader questions that are coming out. That is for discussion, as are the lines of questioning. I hand back to the convener.

The Convener: Thank you, Andrew. The paper raises a number of questions and we might come back to consider some of the gaps. Do members have any questions or comments?

Fiona McLeod: Under question 2, on “Planned spending on acute services versus primary care and community services”, you finish by saying:

“The data reported by boards is not reported in table form pending clarification.”

It is really important that we get that clarification. I hope that the data can be put into a table.

Dr Walker: That is very helpful. One of the boards said that 30 per cent of its spend went on other services and that it ended up with only about 30 per cent of its spend going on acute services. That looked very odd and I did not want to put that board in the position of being in a table and looking like a total outlier. If we can clarify that all

boards were using the same interpretation, we will do that.

The Convener: Anyone else?

Dr Simpson: I am quite interested in prisoners' health, funding for which was transferred from the Scottish Prison Service to the health boards in November. It has now been mainstreamed and moved from earmarked to non-earmarked funding—so there has been a double transfer within a couple of years. I am slightly concerned that some of the health boards—including Forth Valley NHS Board, in my constituency—did not mention it at all while others did. Can we get some further information on that? As we know, that population has specific health problems and it would be useful to know whether the money that was earmarked and then transferred is proving to be adequate. I wonder whether you could ask some further questions on that.

Dr Walker: The question is whether, although the money is not officially earmarked, boards are looking to protect the spending.

Dr Simpson: Yes. What are they spending at the moment and are they going to protect it, or do they see pressures that require an increase in that area? I suspect that the report from Dame Elish Angiolini that we will read as soon as we leave this room will be very interesting in that regard.

The Convener: Apart from the inconsistencies—the clarity of the report has been picked up on and questions have been raised as we have gone through—should we write to the boards on anything else? The document is a public document and it should be possible to deduce what our initial questions are. We will make a decision in a moment about which groups to invite along to the committee, but it may be useful to get some clarification from the boards that may not be coming along.

My pet issue is the outstanding maintenance backlogs, of which NHS Greater Glasgow and Clyde, in my constituency, has the largest, at about £175 million. I understand that painting the toilets and having nice new carpets or whatever in public areas are included, but there is a risk register and a significant amount of money is involved. Only one health board—NHS Lanarkshire, I think—mentioned the cost of maintenance, although it has been a big issue right across Scotland and it amounts to a big number in my local health board. I am surprised that none of the other health boards mentioned it.

Dr Walker: I think that a few boards mentioned it under things that they would like to fund but could not, and I put that under the general heading of capital. However, you are right to say that the information was inconsistent. NHS Greater Glasgow and Clyde was one of the boards that

said that they did not feel that there were any priorities that they could not fund at the moment.

The Convener: I know that the board is setting its budgets now, so there may be money to tackle the backlog, but it is a big number.

If everybody is content with the report and the issues that it raises, we will move on to the proposed oral evidence session. We need witnesses from three or four health boards. There could be a mix on one panel, as Andrew Walker has suggested. We could have health department people along as another panel. Would that be useful? I see Richard Lyle nodding.

Richard Lyle: I think that it would be useful to have the health boards and the officials before us.

12:30

The Convener: So we are agreed that we will take evidence from two panels. One panel will be the health department representatives, so we need to decide on a mix of three to four health boards.

Fiona McLeod: In looking at all the tables in Dr Walker's paper, the health board that jumped out at me was NHS Orkney, which tended to be at either end of the spectrum in each case. It might be useful to have its representatives before the committee.

Dr Simpson: I disagree. NHS Orkney is so small that its problems are really peculiar and its performance can vary hugely. The smallest board that we should invite is NHS Dumfries and Galloway. Under question 2, on non-recurring funding, it appears as an outlier with 14 per cent, and it has no developments that are high on its list but not funded. Those two things are very interesting.

Fiona McLeod: It was just that NHS Orkney went from 13 per cent to 3 per cent on non-recurring funding, and I thought that it would be interesting to understand how it had achieved that huge change.

The Convener: Is there an issue there, Fiona? Do you accept the point that NHS Orkney is really tiny?

Fiona McLeod: Yes, but sometimes it is at the top of the list and sometimes it is at the bottom. It might be easier for NHS Orkney, because it is so small, to explain the pressures and how it can overcome some but not others. It was just a thought.

The Convener: We need to make some progress—we have had two bids so far.

Richard Lyle: I am not putting in a bid, but in one of our evidence sessions it came out that the

chief executive of social care and the chief executive of the NHS are the same person in Orkney.

The Convener: We have had two bids. I am not sure that we can have both of those if we want to go for four boards. If that is what members want, we only need another couple of boards. If we get to five, we will need to eliminate one.

Richard Lyle: I would be touting for NHS Lanarkshire, but I should not do that. We have to go for NHS Greater Glasgow and Clyde.

Dr Simpson: I would support NHS Lanarkshire.

Richard Lyle: I always support Lanarkshire, but it would be wrong of me to say that we should have that one. We have NHS Greater Glasgow and Clyde, and Richard Simpson made the point about NHS Dumfries and Galloway. I am down to A N Other.

The Convener: Right, so we have NHS Greater Glasgow and Clyde and NHS Dumfries and Galloway—and NHS Orkney as well? I am not convinced about the need to see it.

Gil Paterson: I would not mind hearing Andrew Walker's suggestions.

Dr Walker: I had a list of four.

The Convener: That might have been helpful at the start. Go on.

Dr Walker: I have NHS Greater Glasgow and Clyde on my list, just because it has a budget of £2 billion, which is bigger than some departments, so it feels like a natural.

The Convener: Yes, absolutely.

Dr Walker: I would support NHS Lanarkshire, because it has non-recurring funding issues. It also gave some good, measured answers that I put in the report, so it can perhaps offer us some insights.

I was going to suggest NHS Highland, because it has high savings targets and an integration agenda, and there is the issue of whether the mix with social care helps or hinders it in achieving those savings targets.

Jim Eadie: We covered all that in a previous evidence session.

Dr Walker: That may be so. My other suggestion was NHS Western Isles, as a true rural board, because it has a high level of earmarked services and linked services with NHS Greater Glasgow and Clyde, and it has had some financial difficulties in the past.

Those were my four best bets.

The Convener: Okay. I think that we are all agreed on NHS Greater Glasgow and Clyde. Are we agreed on NHS Lanarkshire?

Richard Lyle: I vote for that.

The Convener: Okay. That leaves us with NHS Dumfries and Galloway, which was mentioned earlier, NHS Highland or NHS Western Isles. I am not much bothered about which of those we choose. We have NHS Greater Glasgow and Clyde and NHS Lanarkshire, and we have to pick from NHS Borders, NHS Highland and NHS Western Isles. We could have four, which would be Glasgow, Dumfries, Lanarkshire, and either Highland—

Jim Eadie: There are specific challenges in NHS Lothian at the moment, but I do not know whether that is worthy—

Dr Simpson: NHS Lothian is interesting, because it has been using mechanisms to try to meet its targets that it will not have open to it next year.

The Convener: We will have a big board in NHS Greater Glasgow and Clyde, we will have someone from the Borders and we will have Lanarkshire. Will we have NHS Western Isles or NHS Highland? I ask that Fiona McLeod concedes NHS Orkney; NHS Western Isles or NHS Highland could cover the remoteness aspect. Is NHS Western Isles okay?

Members indicated agreement.

The Convener: Right. Let us check what we have: NHS Greater Glasgow and Clyde, NHS Lanarkshire, NHS Dumfries and Galloway and NHS Western Isles, by special invitation.

I thank you all for your help, and I thank Dr Walker.

We now move into private session, as previously agreed.

12:36

Meeting continued in private until 12:51.

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