



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 25 January 2012

Session 4

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FINANCE COMMITTEE

3rd Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

Mark McDonald (North East Scotland) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (Adviser)

Robert Black (Auditor General for Scotland)

Paul Brewer (PricewaterhouseCoopers)

James Dornan (Glasgow Cathcart) (SNP) (Committee Substitute)

Graeme Downie (National Endowment for Science, Technology and the Arts)

Professor Jim Gallagher (University of Glasgow)

Will Hutton (University of Oxford)

Professor Jeremy Peat (David Hume Institute)

Dr Andrew Walker (University of Glasgow)

CLERK TO THE COMMITTEE

Jim Johnston

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Wednesday 25 January 2012

[The Convener *opened the meeting at 10:01*]

Decision on Taking Business in Private

The Convener (Kenneth Gibson): Good morning. Welcome to the third meeting in 2012 of the Scottish Parliament's Finance Committee. I remind everyone present to switch off mobile phones, BlackBerrys and pagers.

Agenda item 1 is to ask whether members are content to take in private item 4.

Members *indicated agreement.*

Public Sector Pay

10:01

The Convener: Item 2 is evidence on public sector pay from Will Hutton of Hertford College, the University of Oxford, who is the author of the "Hutton Review of Fair Pay in the public sector". I welcome Mr Hutton to our meeting and invite him to make a short opening statement before we proceed to questions.

Will Hutton (University of Oxford): I am not sure that there is a need to say much. I presume that members have read the paper. Would it be helpful if I were to say a few words about the thinking behind it and where I think the Government in London has got to with it?

The Convener: Yes.

Will Hutton: The background is that, very early on after the formation of the coalition Government in May 2010—in fact, on day 1 or 2 of its being formed—David Cameron asked me whether I would look at the case for capping top pay in the public sector at a multiple of 20 times the pay of the lowest-paid person on the pay spine, whether that could be workable and, interestingly, whether it could become a principle to inform private sector pay. It quickly became obvious that the number of people in the public sector who would be captured by that was in single figures and that although there were worrying trends in top people's pay in the public sector, they were not quite the trends that people had thought they would be.

I rejected the 20:1 idea because I thought that the approach would be too arbitrary, but I came down in favour of tracking and monitoring pay multiples and of systematically publishing them as part of increased transparency. I also came down in favour in particular of the notion of "earn back": people who run organisations—this should be mandatory for people on new contracts and voluntary for existing postholders—should put a worthwhile proportion of their pay at risk to be earned back using a balanced scorecard of performance measures. They should have a sense, from conversations with those to whom they are accountable, of what "good" looks like and what they are trying to do with the organisation. Earn back is a way of giving monetary expression to the deeper proposition that top public officials should have a serious conversation about what they will try to do in the year to three years ahead.

That was informed by my notions of fairness, which I had worked up in the preceding two years and published in my book, "Them and Us: Politics, Greed and Inequality—Why We Need a Fair Society". In the book, I argue that fairness should

be understood not as an applehood and mother pie—[*Laughter*—sorry, motherhood and apple pie concept, but as getting one's due deserts for one's efforts, in proportion to one's efforts and, in particular, to the contribution that one has made. There is a wealth of evidence from behavioural psychology, from multiple experiments in social science laboratories and from our studies of history that suggests that reward should be proportionate to contribution. One of the reasons why justice is represented by scales in so many civilisations is that people are trying to make the tariff of punishment proportionate to the crime.

The notion of due desert is profoundly embedded. We even know in which parts of the brain the sensibility exists: it is in the front part, along with the capacity to learn language. The notion of due desert and proportionality is a basic human instinct.

Human beings also recognise the role of luck in human affairs. If someone works on their good luck and their natural advantages, they should get the advantage. Brute bad luck—circumstantial luck—or brute good luck are things that we feel should be either mitigated or shared in. One of the reasons why people get so anxious about the bonus culture is the strongly held view that bonuses, particularly in financial services, are not earned by hard work, effort or any sense of contribution, but are the result of someone having the brute good luck to be in the right industry at the right time and to hit the jackpot, thereby getting a vastly disproportionate reward for their contribution. That is felt to be unfair.

That does not mean that the notion of earned bonus or earned incentive is felt to be unfair. Early in my inquiry, I pointed to a lot of evidence across the public sector of the public thinking that a great teacher or chief constable is worth his or her hire. I pointed to the public reaction to the case of Mark Elms, who ran Tidemill primary school in south-east London and was involved with a group of schools. Members might recall that he got a one-off bonus that took his remuneration in a single year to close to £200,000. Although some people said that that was extraordinarily unfair, because they assumed that the bonus was unearned—like a banker's bonus—the parents of the children who went to the school and the schools that he supported as part of his job thought that he had done a brilliant turnaround job and was more than worth his hire. Similarly, the chief constable of Cleveland Police, who earned £200,000, had reduced the crime rate in Cleveland to such an extent that when "Panorama" went to Cleveland the programme could not find a single person who would come on camera to criticise the remuneration.

I argue for the notion of earn back. Postholders at the top of the public sector should have the conversation about what "good" looks like. If they perform, they should earn back all of their salary, and if they overperform, they should have a non-consolidated uplift that is commensurate with the amount of salary that they put at risk. I think that that would fair, and I think that the British—and Scottish—public would regard it as being fair. That would not be the same as bank bonuses.

I also argued for radical reform of remuneration committees. Despite what the Secretary of State for Business, Innovation and Skills said on Monday about the private sector, in the public sector there is a strong case for a member of staff to be represented on the remuneration committee that deliberates on pay.

The Government welcomed my report and a team that has been set up at the Cabinet Office—with the backing of the Prime Minister, Francis Maude and, I believe, Oliver Letwin—has been doing extensive consultation work on whether my proposals will be accepted in part or in full and, if they are accepted, how they can be rolled out. I am told that an announcement will be made in July and that the Government will accept pretty much all my recommendations—that is where the conversation is now, although it may change between now and July.

I am told that the Government will certainly accept the case for tracking multiples—the ratio of top pay to median pay—in public sector organisations, and that everyone will be required to publish a single number. There was a trace of that thinking in Vince Cable's statement on Monday; he argued that one figure should be published for private sector chief executive officers' remuneration, which is one of my recommendations.

The pay ratio should be tracked over five years. Citizens should be able to see whether it is stable, declining or rising and they should be able to get good answers about why it does what it does. They should be able to make comparisons between the universities sector and local authorities, for example, to determine whether the differences in size, scope, complexity and challenge that might justify different pay multiples among different organisations are a reality. The Senior Salaries Review Body should publish the figures in a single fair-pay document. My understanding is that that is likely to be accepted, endorsed and required.

The argument rages on earn back. Many people in the Cabinet Office and the Treasury are strongly for earn back, but there is some pushing back against that because if there is no compensating uplift, earn back would, in effect, be a fine on public sector leaders. Suddenly to be required to

earn back 10 per cent of their salary would feel like a fine to people who run local authorities or universities, and are paid £150,000 or £200,000 a year, even though it would actually be an attempt to establish the parameters for them to do what was wanted of them. Under such a system they, their rem com and those around them would know why the person did what they did, which would make them eligible for a non-consolidated uplift that would be symmetrical with the amount of money that they had put at risk. At the moment, it is between 40 and 60 per cent likely that earn back will be accepted. Staff being on rem coms is a possibility, not a probability.

Another one of my recommendations is that the talent pool in the public sector should be enlarged, from which we can recruit and cross-fertilise among parts of the public sector. I was alarmed by how many people in local government, for example, come from the local government gene pool and how many chief constables come from the chief constable gene pool. There is little cross-fertilisation. There should be a common entry for young graduates and a two or three-year period in which they could work across a range of public departments to give them a range of experience before they settle on one. That would also enable and equip them to make other moves later in their careers.

One of the reasons why there were the beginnings of a pay arms race in the Russell group of universities and parts of local government was that the gene pool from which they were recruiting and the shortlists from which they were able to nominate were so small. Enlargement of that gene pool would be another way of trying to take some of the heat out of the situation.

10:15

Last but not least, if earn back were adopted by public sector leaders, people in the middle of organisations could, by volunteering to put part of their pay at risk, show that they were up for public-sector performance assessment. The alpha, carnivore, risk-taking and entrepreneurial people in public officialdom would have a means of signalling to the hierarchy what kind of people they are, in a way that does not exist at the minute. That would enable public sector performance assessment.

I finish by saying that there is now common ground among the three political parties—although, in Scotland, I should say the four political parties—that a form of responsible capitalism is what we want in Britain and in Scotland. In any concept of responsible capitalism, there is co-dependency between the public and private sectors. You cannot do responsible capitalism without a performance-oriented public

sector—one that embraces change and performance and which thereby earns legitimacy. I see earn back as being a fundamental way of achieving that.

Everyone knows about the semi-fiasco—the fiasco—over the Edinburgh trams. If part of the pay of the people involved had been at risk, an immediate consequence would not necessarily have been the loss of those people's jobs—because there might have been mitigating circumstances in the whole fiasco—but the people certainly would not have earned back the money that they had put at risk. That would immediately have assured Edinburgh and Scottish citizens that penalties for cock-ups were embedded in the system. Such an assurance does not exist.

The Convener: Thank you very much for that fairly comprehensive introduction. Your report is absolutely fascinating, and I know that my colleagues will have a number of questions. You have already answered some of the questions that I had intended to ask. [*Laughter.*]

Will Hutton: Was my introduction too long?

The Convener: No—although, judging by the laughter from my colleagues, I think that you have answered many of their questions as well.

You spent a while talking about earn back, and it is a crucial part of the report. I find the concept very interesting. How will success or failure be measured? The Scottish Government has said:

“A potential concern might be that this may push up pay from the ‘90% pay level’”

and

“there remains the question of who in the Scottish Government or other third party would be best placed and sufficiently knowledgeable to be able to comment on the performance related pay element; and this could bring the Scottish Government or other third party into conflict with the employer/employee contractual relationship”.

The paragraph ends:

“These issues are of course not specific to Scotland.”

In the private sector, it can always be argued that the performance of a chief executive can be measured by the increasing value of shares and by company growth. How can performance be measured in the public sector? You talked about balance and suggested that we should consider not only the case of someone losing 10 per cent of their pay, but the possibility of their having an opportunity to enhance their pay. That would be an important motivator. Will you respond to those comments from the Scottish Government?

Will Hutton: Interestingly enough, we know that people are more risk averse than they are anxious to make money, but people would be anxious to earn their money back—that would be an even

bigger incentive than getting the 10 per cent uplift. However, there has to be some symmetry. If someone is putting part of their basic pay at risk, there has to be a symmetrical opportunity for reward.

Since I wrote the report, debate has been vigorous. Some people say that any kind of attempt to do what Will Hutton is suggesting goes against the public sector ethos. They say that people in the public sector are motivated not by money but by a desire to do a good job, and that the framework should not undermine that sense of vocation and that ethos.

You asked who is equipped to make a judgment on whether someone has performed. If the situation is that there is no one, what a bloody position to be in. If no one has any idea whether or not someone who is receiving taxpayers' pounds is doing a good job, that is a parlous situation. There jolly well should be somebody in that position.

If those who are running organisations have no idea what those to whom they are accountable think good performance looks like, all they have to go on are hunches and instincts and what they might diagnose as being the problem. However, that is not reality checked with anyone else, and you are saying that no one is in a position to reality check it. My push back against that is that if no one is able to do it, that is close to a crisis in the Scottish public sector. There should and must be someone to do that in order to give citizens some assurance that the taxpayers' pounds are being well spent. As everyone knows, there is a legitimacy crisis in the public sector. If, as a public official, you cannot say with your hand on your heart that you are operating in a certain framework, explain what you are trying to do and that it has been described in a certain way, and explain that that is why you are being paid what you are being paid, it seems to me that you are in real trouble.

My second point relates to the public sector ethos. When I took evidence, a lot of people—particularly from the trade unions—were anxious to tell me that measuring performance in the public sector is very difficult. They said, for example, that it is difficult to measure performance in refuse collection in local government or to measure the performance of a teacher, or of an official in the department of enterprise or wherever because it is so complex, and completely different from the private sector, where all one has to do is make money.

I just do not know where to begin when I hear that kind of thing. It is as if it is harder to establish metrics of performance around refuse collection than around the complexity of running a supermarket well or delivering high-quality

catalytic converters for upmarket cars—as if that is an easy thing to do, and such measurement is impossible in the public sector.

I challenge people and say, “It’s exactly the opposite”. Anyone who has run a private sector organisation knows that you have to trade the short term against the medium and long terms, and that you must balance the interests of different shareholders who have different expectations of you. Your customers have expectations of you, and so has your supply chain. You have multiple competitive challenges and all kinds of technologies and innovative possibilities that you can run with or decide not to run with. It is a highly complicated environment.

The private sector is not, as we know, particularly good at devising performance frameworks, because owners, absentee landlords and shareholders abdicate responsibility for that. However, that does not mean that it cannot or should not be done, or that it is desperately easy in the private sector and impossibly complicated in the public sector.

Most people in the public sector know very well what they should be doing from discussions with their remuneration or nomination committees, or whichever board they are accountable to. All we have to do is formalise that in a broad-brush, balanced score card of objectives and—hey, presto!—you have performance measuring, which can be quite congruent with the public sector ethos.

You will find as you take evidence that there are people who strongly sympathise with my position, and others who are strongly critical of it.

I will keep my answers very short from now on, by the way. [*Laughter.*]

The Convener: Yes—I will have to truncate some of my questions.

Will Hutton: I will be here until midnight. The committee members will be falling asleep.

The Convener: I need to ensure that all my colleagues have an opportunity to come in at least once, and some of them will no doubt want to come in twice.

I will ask you a couple more questions. The first is on improved transparency, which is important. On bonuses, the Scottish Government says that, although the names and salary details of members of senior leadership teams are disclosed, bonus figures are not normally published because of considerations around the Data Protection Act 1998, which would come into play if there were moves to publish more than simply bonus amounts. There is a difficulty around that issue. Could you comment on it?

Will Hutton: We live in an era of WikiLeaks and more and more transparency; that is the contemporary world. I tried to draft the part of the report that you are referring to carefully, but I think that all that you can do is to go for maximum transparency, congruent with the Data Protection Act 1998. I do not have a better answer, I am afraid. The reality is that, if you are holding a top position in the public or the private sector, details of your remuneration will get out there.

Some countries are saying, "To hell with it" and going even further than we are. Which Nordic country am I thinking of? Norway? In one of the Nordic countries, anyway, everyone has to publish their tax return. My expectation is that, if any hearing of the sort that is being held today is held in 2100, the prosecuting MSPs—[*Laughter.*]

The Convener: Inquisitors.

Will Hutton: Yes, "inquisitors" is a better word. I expect that, at that time, everything will be out in the open. Over time, the data protection legislation will be redesigned again and again in order to permit that. That is my instinct, anyway. I would start this journey with that expectation, while always respecting the legal position.

The Convener: You said in your report that the package of recommendations must be taken as a whole, but you indicated that the UK Government might be minded to take on board some but not all of them, and the Scottish Government has issued some caveats around its acceptance of the recommendations. Could you comment on that?

Will Hutton: I have met a few times the Cabinet Office team who are dealing with this matter and I have tried to impress on them that the effectiveness of the measures will depend on the whole being accepted—the transparency, the multiples, the publishing all in one place, earn back, the rem com and trying to increase the supply of leadership candidates via recruitment and training policy that affects them early in their careers. I think that that team has got that message, but there is an inevitable tendency for politicians to cherry pick. We shall see. I hope that the report will be implemented in full, but I am not counting any chickens.

The Convener: Politicians cherry pick? Surely not.

Will Hutton: This is not the audience to say that in front of, is it? That was not the cleverest thing I ever said. I should say that only journalists are worse.

Michael McMahon (Uddingston and Bellshill (Lab): I was really interested in the earn back idea. I am not saying that I am concerned about how it would work, but a couple of thoughts occurred to me while you were describing it. If I

put them to you, you could explain why any concern that I might have would be unfounded.

None of the people in the public sector about whom you are talking works in a silo. There are political agendas to create cross-cutting work and shared services, so people who work in the public sector work with partners. Chief executives of local authorities depend heavily on the work that is done by the health service, the police require other departments to work closely with them in order to achieve their outcomes, and so on. Is there not a danger that a chief executive or senior manager in one of these positions might not meet the target that has been set for them because of failures elsewhere? Because meeting that target would be dependent on everyone driving forward to achieve the earn back, could they be punished for the failures of other people? If that were the case, someone who was on £200,000 a year of which 10 per cent was held back for them to earn back might say, "Okay, I'll just take £180,000." There could be a levelling down—I am reluctant to say a dumbing down—whereby people would not think it worth the effort to get the extra £20,000. If they were going to be opened up to transparency and be judged, and if other people were going to have an impact on their salary, they might just say, "I can do without the hassle."

10:30

Will Hutton: Those are good points. In such a situation, you must always ask the counter question: are you so happy with the status quo that you want to leave things as they are? Moving involves the risks that you have established, but standing pat also has associated risks. My judgment is that standing pat, in the current climate, poses more risks than moving. There is a lot of suspicion about the public sector and about what officials do. As we say in our report, in one YouGov poll, 25 per cent of respondents thought that top public sector officials earned more than those at the top of the private sector. In this climate, there is an awful lot of disinformation out there and there has been an awful lot of pressure on officials, who take on enormous responsibilities, to take arbitrary pay cuts. It would be much better for them to say that they will put part of their pay at risk and earn it back in the legitimate fashion that is on the table as an answer to their critics. That does not bomb-proof them, but it helps to bomb-proof them.

The BBC adopted my proposals in July and, for six months, although the BBC has had the usual bombardment of criticism, it has not been criticised about pay. With Mark Thompson likely to step down, there is a framework for making certain that his successor gets paid in a way that people widely regard as fair. The BBC has adopted a pay

multiple framework, and his multiple needs to be brought into line with those of the people who report to him, as it had got out of line with them and with what the BBC had paid in the past. The BBC needed a story to tell its critics about how it pays its top person. If you talk to Chris Patten—if you ask him to give evidence to you—he will say that he regards such a framework as extraordinarily helpful. A lot of people in the public sector who are under fire say the same thing.

You ask whether someone would just not bother about the amount to be earned back. What happens if, in my language, someone has the circumstantial or brute bad luck that someone else's actions, in this interdependent world, make it impossible for them to do their job? The performance metrics should be able to handle that. We should not reward people for being lucky enough to be in the right place at the right time and we should not penalise them for being in the wrong place at the wrong time. It is not difficult to address that, and it would all be transparent. I think that public officials would much rather be in the position of being able to say, "Hey! I put 10 per cent at risk and not only did I earn it back, I overperformed—that's why I've got a £5K one-off bonus. Here are the reasons why—everybody can read about them." If they can show the results that everyone wanted, which they have worked 70 hours a week to get, I think that—although you might be surprised—the British public would say, "Fair dos."

John Mason (Glasgow Shettleston) (SNP): It is good to see you at the committee, Mr Hutton. I want to concentrate on your ideas of fairness and the multiple, which you felt should not have a hard cap—for example, 20 times what the lowest-paid person gets. Frankly, I find it appalling that anyone can be paid 20 times the minimum amount. If a living wage is roughly £12,500 a year at the bottom, that would put the top person on £250,000. To my thinking, that is unfair—full stop. I would have thought that even a multiple of 10 times would be quite generous. Do you accept that the concepts of fairness and due desert are largely subjective? I am not clear what "due desert" means. You said that you do not think that luck should play a part, but a lot is to do with, for example, who people's parents are, their upbringing, the school that they went to, whether they have good health and so on. Somebody who sweeps the streets can work just as hard as a chief executive but get paid a tiny fraction of what the latter gets. How do we define fairness in that context?

Will Hutton: Good question. I have pondered long and hard on whether I was right to reject a maximum multiple of 20. It was quite a tough call. Most organisations have a span of control that has seven or eight levels from top to bottom. If you

want pay bands that provide an opportunity for people to migrate up them, they need to be, say, 25 per cent higher at the top than they are at the bottom, and there should be a gap between pay band 1 and pay band 2, and so on. You can build a pyramid of pay bands quite comfortably within a 20:1 scale and you can also build in incentives.

My concern about a multiple of 20 is that it will not apply to all organisations in the public sector. There is a debate around whether we should measure according to the lowest pay or the median pay. Almost all organisations will have someone on low pay, but many organisations will have a huge bubble in the middle of the pay range, some of whom will be well paid. Other organisations will have a very flat pay shape, with lots of low-paid people and just some at the top.

Once you start considering such differences, you can quickly get into a minefield. For example, in the Solicitor General's office, the median pay is very high and the lowest-paid person is well paid. Whether we measure it on the bottom of the pay spine or the middle, that multiple comes in at low single figures. However, at a university, for example, the lowest-paid person might be a cleaner, so the vice-chancellor will come out with a much higher multiple. We can therefore get into invidious comparisons.

That is why I decided that it was best not to have a multiple of 20 but rather to publish multiples so that comparisons can be made over time. My interest was in how the multiple has gone up. For example, why has the BBC director general's multiple gone up from eight or nine in the 1970s to close to 20 in the early 2000s? What has happened to justify that over time? Is the organisation so much more complicated than it used to be?

John Mason: Do you think that publishing the multiples will be sufficient?

Will Hutton: No. I want them published so that the rem com, with a staff member on it, will ask some gritty questions and so that recruitment consultants, for example, can also raise the issue of the multiple. I want part of the money to be put into earn back so that it is embedded in a system of performance metric, rather than having the position whereby people can say, "Oh, this chap is performing so well that we must pay him £100,000 more." Let us have a much more toughly nailed down system than the present one.

That is why I got to where I got to. I am slightly dismayed that people are now making the Tesco/Goldman Sachs point that I made in arguing against having a 20:1 pay cap—that Tesco will have a higher pay multiple than Goldman Sachs even though everyone at Goldman Sachs is paid much more. I went on to

say that we should publish the multiple for Tesco, so that we can see how it has moved over time and can compare it with the multiple for other food retailers. That is bloody interesting. Let us do the same for Goldman Sachs. I am not particularly interested in making a comparison between Goldman Sachs and Tesco. People who are trying to protect extremely high salaries in the private sector have used the argument that I used for not having an arbitrary 20:1 ratio as an argument for having no multiples at all. I have been dismayed at the way in which that has become part of the public discourse.

On due desert, I have set out my stall. I point Mr Mason to the interim report, in the opening chapter of which I set out my ideas on due desert in seven or eight paragraphs. That will answer your question.

John Mason: Thank you.

Will Hutton: I am trying—in vain—to keep my answers short.

The Convener: That is okay—it is a fascinating subject.

Elaine Murray (Dumfriesshire) (Lab): I want to return to earn back, which is an interesting concept and one that I instinctively support. However, there are some potentially problematic issues, the first of which is how it would be implemented, given that highly paid public sector workers already have a contract. A chief executive of a local authority or a housing association will have been offered that job at a particular salary. By introducing earn back pay, we would be altering someone's conditions of service. If we brought it in, we could face the practical problem of its being challenged.

My second point is about benchmarking. In the public sector, we have moved away from an output-based approach to measuring success. At one time, success in local government would have been for a council to have emptied 90 per cent of its bins in a certain amount of time. We have tended to move away from that towards measuring outcomes, but it takes much longer to see whether they have been successful. It would be difficult to use an outcomes-based approach on an annual basis to work out whether people were entitled to earn back pay. Is there not a danger that you might push the measurement of success away from an outcomes-based analysis and back towards an output-based analysis?

Will Hutton: You talk about the difference between output and outcomes. I think that you mean input rather than—

Elaine Murray: Not really. The way in which a body's success used to be measured was that it got a certain amount of money from the

taxpayer—the input—and the output was the number of things that it did in a certain period of time. Outcomes relate to what, in doing those things, an organisation does for the public good. Certainly in the public sector in Scotland, we have tended to move towards measuring not just how many bins are emptied and in what time but factors such as what the effect is on the quality of life of the citizen, which are much more difficult to measure. That would be difficult to do on an annual basis.

Will Hutton: Yes. I have wrestled with the issue a lot. Some close friends of mine in the public sector make similar points, and I have had some pretty vigorous arguments on the subject.

My answer is similar to one that I gave to an earlier question. These dilemmas exist. What process is there for attempting an answer? At the moment, things are pretty rough and ready. You suck your finger, you put it in the air and you see which way the wind is blowing. Surely we can devise a framework that includes quantitative and qualitative measures. People who are listening might be thinking, "My God! Will's thinking of a straitjacket of Blairite performance targets." There are more than 200 of those in the national health service. Thankfully, we are moving away from that approach, but people might be worried that what I am proposing would take us back to it.

10:45

I tried to say over and over in the report that there should be a balanced scorecard and a maximum of five measures. Try to keep things as broad brush as possible. Do not allow yourselves to get bogged down in metrics over quality of life—if it walks like a duck and talks like a duck, it is a duck. There can be a sensible conversation with the rem com about whether things are being achieved. You are not trying to make every 1 per cent of the 10 per cent earn back due for forensic analysis. Ten per cent of what used to be people's base pay will be put at risk, and every single pound of the earn back should not be signed off in a huge and time-consuming process. I want that to be clearly understood by citizens and leadership. The approach has to be broad brush enough not to get people into ratholes and difficulties.

That is the best that I can say.

Elaine Murray: Have you thought about the possibility of a legal challenge under people's employment terms?

Will Hutton: Earn back can be only for new contracts and people who volunteer. If people want to stand by their existing contracts, that is fine. Their terms and conditions cannot be unilaterally changed.

Paul Wheelhouse (South Scotland) (SNP): I am fascinated by the evidence so far and thank you for what you have said.

I was particularly taken by your comments on the “dialogue of the deaf” in the foreword to your report. For the benefit of those who are watching the meeting on television, I will read what you said:

“Government and the public sector are too easily regarded as an obstacle to growth and the good society. Properly organised, led and managed they are instead their handmaidens. Indeed most public servants are animated by precisely this aim.”

I completely agree with those sentiments.

You proceeded to talk about the case that has been made that it is necessary to increase pay to attract the appropriate talent into the public sector. Obviously, there is a little bit of tension between those two things. I agree that there is an element of truth in both of them, but will you comment on the implications of having to pay to attract talent into the public sector, even though it could be argued that those who are in the public sector have the public service ethos very much at heart and have a desire to improve services? With the appropriate incentivisation through earn back and other measures that you have talked about, might we encourage improved performance from within the sector and be able to recruit people from within it to the top positions?

To complicate matters, I want to talk about gain sharing. I was interested in what you said about that. I have worked in the private sector. We had performance-related bonuses, part of which related to the overall company’s performance. A certain amount relating to overall group performance was hypothecated, and a discretionary element related to personal performance. Are you thinking along those lines? Would earn back be, in effect, the profit pool that would be distributed?

Will Hutton: Hay and PWC have done a lot of benchmarking work, which is mentioned in both the interim and final reports. People at the top of the public sector make around 55 per cent of what their private sector peers make in jobs of similar complexity and weight. Therefore, there is really a huge discount on what might be made in a private sector career. People have a chance to do some good in the public sector and there is the vocation element, but I find how few able people make public sector careers in Britain quite alarming.

I run an Oxford college and I have observed that at least a third of the sixth-form pupils in our top private schools are taught by people who do not just have Oxford and Cambridge degrees, but DPhils and so on—they are highly qualified people. Almost nobody goes into one of Britain’s

2,000 underperforming comprehensives with a degree from a Russell group university. One calculation in that is that the returns from that highly demanding work are so poor. That matters.

Consider the challenge facing the Scottish Government in the next five years. Cumulatively, departmental expenditure limits are to be cut by 18 per cent, but no one wants that to be accompanied by a comparable 18 per cent cut in delivery. That is a real challenge. If we want the best dynamic and enterprising people to be at the top of the organisations that try to deliver what the Government wants, we cannot pay them indifferent sums of money because, in the end, that starts to show.

At present, the situation is probably just about okay but, in a decade, if we consistently underpay, we will not get the able people that we want. That has happened in the United States, where there have been problems at the Securities and Exchange Commission and at the Food and Drug Administration, which simply cannot get people to regulate the drugs industry and approve drugs quickly enough because it will not pay. Posts are vacant for long spells and then, when somebody is employed, they are not good enough.

There is a co-dependency between the public and private sectors. The pharmaceutical industry might pay 10 times more than the regulators that approve the drugs, but the industry still needs its drugs to be approved if people are going to use them with confidence. If we end up paying trivial sums of money, we will get into terrible trouble. We cannot just say that we can pay everyone less than the Prime Minister and everything will be fine. We must accept that we need to pay people a certain amount and that we probably cannot afford to pay them much less than we currently pay.

Paul Wheelhouse: That is an important finding. In effect, you say that we should resist the siren voices that we occasionally hear on the issue. You gave examples in your opening remarks involving the Cleveland police and a primary school in which you feel that the pay was justified because there was clear evidence of performance and achieving results. We need to get away from some of the public discourse on this.

Will Hutton: The British public are not fools. If they see a top official in the public sector doing a good job, they recognise that it is not unreasonable to pay them. People know that chief executives of the FTSE 100 companies make about £4.6 million. Salaries in the public sector of £150,000, £200,000 or £250,000 are large in relation to the amount that ordinary people make, but they are much lower than what is paid at the top of the private sector these days.

Paul Wheelhouse: Will you expand on gain sharing and say how you see that working?

Will Hutton: I think that there is enough flex in budgets to have that for the top team. The amount of uplift would be small beer—it would be 0.1 or 0.2 per cent of the total salary bill. That can probably be handled without having a profit or earn back pool. However, if that approach became generalised so that 15 to 20 per cent of the management in an organisation volunteered for it, such a pool would have to be created.

James Dornan (Glasgow Cathcart) (SNP): Thank you, Mr Hutton. I have thoroughly enjoyed the performance so far.

Will Hutton: Oh, good. I am glad that it is a gig you are enjoying. [*Laughter.*]

The Convener: Do you have any juggling skills? [*Laughter.*]

James Dornan: I thought that he was going to do that off camera.

I have some questions on the earn back scheme. I am keen that executives of local authorities and other public sector bodies have an incentive to perform better than some of them are performing at present. You said that the earn back scheme will be voluntary. Do you expect public pressure to be the incentive for executives to take part in it?

Will Hutton: Once it is up and running and a critical mass of people are involved in it, it will be difficult for the balance to hold out. Most heads of local government are in post for between five and seven years, so there will be an opportunity with natural turnover to introduce it to the contracts of people who are new. With a goodly proportion of current postholders volunteering as well, we will probably get to more than a fifth or perhaps as many as a third being on earn back by year 2. I think that the balance will then quickly volunteer because they will want to demonstrate that they are performance oriented, too.

If the Government goes for it, I do not think that it will take seven or eight years. It can be done in two or three. The dynamic will be set in train.

James Dornan: Are you saying that it will be voluntary for those on existing contracts but compulsory for those who come in, or will it be voluntary for all?

Will Hutton: As I see it, which is in line with the legal advice that I got, we cannot require an existing postholder compulsorily to put 10 per cent of their pay at risk as that is not in their existing contract of employment, so we would introduce earn back by asking new appointees to be paid on that basis. Those who choose to volunteer for it can be eligible for it, but we cannot mandate it by

unilaterally changing people's terms and conditions of employment.

James Dornan: You have talked about 10 per cent. Is that the actual figure or just an example?

Will Hutton: It has to be a meaningful figure, and I think that 10 per cent is the lowest such figure. Around the world, there are things that are analogous to, but not quite, earn back. The Canadian civil service has something similar. You will see a little box in the final report that discusses the Canadian scheme, which asks for 30 per cent. We can flex earn back and give it more or less bite.

The difficulty with making the figure 30 per cent is that, if the scheme is to be symmetrical, we would open ourselves up to giving people a 30 per cent bonus. Politicians could defend a 5 or 10 per cent bonus, but it becomes tricky for them to defend a 30 per cent bonus unless somebody does something really exceptional. I would encourage people to think in those terms. Also, 30 per cent is a bit of a whack to take out of people's base pay. The point that your colleague Mr McMahon made then becomes much more pertinent.

James Dornan: You have answered one of my other questions in saying that it would be the same percentage on either side. Someone could go down by 10 per cent or—

Will Hutton: Ten or 15 per cent is where I would settle, yes.

James Dornan: Whatever the figure is, it would be the same at either end.

Is the danger not that, as we discussed earlier, the 90 per cent would become 100 per cent, and it would become a double bonus structure after that? People would have a basic that was no longer the basic that they had but was lower than that. They would have a bonus to get to their old basic, and another bonus to get the further 10 per cent.

11:00

Will Hutton: Of course there is that danger. In the literature on the economics of salaries and wages, it was Nobel prize winner Daniel Kahneman who first came up with the notion of the reference wage. You as MSPs know what you are paid now and you know what you were paid last year. If you were asked to put some of your base pay at risk for your performance as representatives of Scottish citizens—[*Laughter.*]—you would know what was at risk because you would have the reference wage in mind. When you are earning back in year 2, your anchor is what you were paid in year 1. There might be some inflation but, in year 5, the postholder's pay should

be referenced back to what it was when the earn back began, adjusted for any increase or reduction in complexity—it may be that the job has become easier. All that is open—it is in the public domain. I understand that the conventional approach to performance pay has that risk, but I do not think that this approach does.

Gavin Brown (Lothian) (Con): When you described in your report the range of issues that you were grappling with, you used the phrase:

“This is not just a British problem”.

You referred to the Canadian civil service. Are there other international examples, not just on earn back but across the spectrum of issues that you looked at, that you drew inspiration from and would commend to us?

Will Hutton: The Canadian pay example was the closest to earn back. I suggest that the committee look at that one. The committee should also look at countries where public sector pay is being held back, such as America. The American public sector is in very bad shape, which is beginning to have a negative impact on the quality of life in America. I recommend to the committee a paper written by a Harvard academic on the hollowing out of the American public sector. I looked at good and bad in North America. It would also be helpful to look at the way in which the Scandinavians approach the issue.

Pound for pound of turnover, the British private sector pays more for its top people than anywhere else in the world, including the United States of America. US CEOs make more money than UK CEOs, but once we adjust for company complexity and turnover, British CEOs make more. In the British private sector, the rate of increase in pay has been even more rapid than in the US—it has gone up eight times in the past 20 years. Lobbyists for business say that it is a global market, to which the response is, “Yes, it is a global market, but we pay the most.” Executives anywhere else in the world are paid less than they would be paid in Britain for a like-for-like job. That has had a shadow effect on the British public sector, which faces the problem that those very highly paid people are the benchmark, which has forced more upward bias and created more urgency in the debate in Britain than in other countries, where the compression between top and bottom is more normal in the private sector and therefore more normal in the public sector.

That explosion has been caused by Britain’s absentee landlord—or absentee shareholder—problem. In fact, the commission on ownership, which I chair, has been discussing how one might close that gap. I will be bringing forward proposals in March or early April so I will come back and

answer that question when I have got those sorted out.

In short, the committee should be leery of looking internationally because the circumstances in particular countries with regard to top people’s pay can be very different.

Gavin Brown: I am grateful for that.

The Convener: How often did we hear in the debacle over bankers’ bonuses the warning that bankers would flee abroad to wonderful highly paid banking jobs elsewhere? I am sure that exactly the same thing was said in Switzerland and the US.

I am glad that you touched on context earlier and again just now, because it is important. Indeed, the most important sentence in your foreword is:

“only one pound of every hundred pounds earned by the top one per cent of earners is earned by public sector employees”.

Furthermore, as we know, the salaries of the top earners in the private sector went up about 49 per cent last year at a time when the public sector was enduring a pay freeze more or less right across the board.

We have also been talking about a multiple of 20 for top public sector earners. I understand that in Tesco, which you mentioned, the multiple is more like 1,000. Major issues certainly need to be addressed.

Some months ago, Professor Bell raised with us the issue of median earnings in the public sector relative to the private sector and said that in England median earnings in the public sector were about 30 per cent higher than those in the private sector and in Scotland about 40 per cent higher. That is probably what has led to 25 per cent of the public thinking that there are higher wages at the top level of the public sector.

I will finish with a question about reviews of public sector pay, including that of politicians. A review carried out in Scotland recommended that local authority councillors’ remuneration should be increased by 16.9 per cent, but ministers decided not to implement that recommendation. Over the past 30, 40 or 50 years, all the parties represented around the table have, while in office, commissioned public sector pay reviews that recommended an increase in remuneration for, among others, councillors in Scotland and MPs at Westminster. None of those recommendations has been implemented—for political reasons, to be quite blunt—and perhaps we saw some of the fallout in the expenses issue that hit Westminster two or three years ago.

What is your view on such reviews? When people get round the table to put together reviews of public sector pay, should it be decided at the outset that the recommendations will be binding, or should it be the case, as it seems to be now, that if the ruling political party or parties decide that such moves might not suit them politically—there might, for example, be a headline in the *Daily Mail*—they should simply accept or reject them as they see fit?

Will Hutton: That is a good question. I have known David Bell for some years now and admire his work.

It is worth pointing out that one of the reasons why median public sector pay is higher than median private sector pay is because a lot of people in the public sector are quite highly skilled. In other words, there is a skill premium. It is worth disaggregating the numbers carefully because, when you do so, some of the apparently alarming disparities become much less so.

This is a tricky one. We live in a democracy; politicians are under enormous pressure; and one cannot simply passport through pay recommendations without political sanction. Politicians are needed to validate and argue for such increases.

I sometimes say to people across the political spectrum and to anyone who gets involved in public affairs that one has to argue one's head off—we have to argue, argue, argue. I suppose that the people who do the pay reviews and come up with recommendations such as the 16.9 per cent increase for local councillors need to argue for those recommendations really well. Sometimes the language in pay reviews is technocratic. The assumption is that the numbers will speak for themselves, so the argument is not made. However, if the argument is not made, it is harder for the politician to run with it. If he or she is not provided with really powerful arguments—well, you can write the headlines yourselves. Depending on how robust you are feeling or how much political capital you have, you have to decide whether or not you should run with the argument. That is the political process and I would not want to undermine it. You are all elected and I am not. Hats off to you for getting elected; it is a big deal. Once you are elected, those of us who are not elected must accept the cockpit in which you operate.

I do not want the decisions to be passported through in a mandated way. However, pay reviews are not done with an eye to how the recommendation is going to be argued through once it has been made. In my review of fair pay, I tried to provide a framework for a better discussion of all these debates about pay. It would be much easier to make the case in a world in which we

knew about pay multiples and earn back and understood the nature of performance, or if we could disaggregate the numbers so that we could see that there was a skill premium that explained the disparities. If all that was out there, it would be much easier to make the argument. Then I would look to my politicians to be braver and run with the argument that has been made, but I do not want to cut off their ability to make difficult decisions. Politicians have to make decisions.

I do not like the trend in Britain and elsewhere of taking power away from politicians because we do not trust them—they make decisions about so many things, but are helped by independent institutions to depoliticise those decisions. Such decisions are political and we have to recognise that and make the argument for them.

The Convener: Politicians do not like to be seen to be voting for their own or other politicians' remuneration. It is about the neutrality of the decision.

Will Hutton: That is a well-made point, but we need well-paid councillors. If you pay people peanuts, you get monkeys. It is a big deal to make cuts, and you cannot expect people to do that for nothing.

The Convener: Absolutely.

On behalf of the committee, I thank you for a fascinating session. It has enlightened us all, as has your report, on which we will reflect.

Will Hutton: Thank you all for your questions. It was a good dialogue.

The Convener: I suspend the meeting until 25 past 11.

11:13

Meeting suspended.

11:25

On resuming—

Fiscal Sustainability (Universal Services)

The Convener: Item 3 is the third of our four round-table discussions on the theme of fiscal sustainability. The discussion will focus on the provision and funding of free universal services.

I welcome to the meeting Robert Black, Auditor General for Scotland; Paul Brewer, from PricewaterhouseCoopers; Graeme Downie, from the National Endowment for Science, Technology and the Arts; Professor Jim Gallagher, from the University of Glasgow; Professor Jeremy Peat, from the David Hume Institute; and Dr Andrew Walker, from the University of Glasgow.

As we are taking evidence in a round-table format, there will be no opening statements and we will proceed straight to questions. If any of the participants would like to respond to a question or make a point, they should indicate to me or the clerk. Participants may be asked to answer questions that are put by other participants. We will try to keep things as informal and fast-moving as possible.

I will kick off by asking Robert Black about a quote in Audit Scotland's submission to the committee, which is dated January 2012—he has been pre-warned about this. The submission says that the Audit Scotland report "A review of free personal and nursing care", indicated that

"the legislation and guidance was ambiguous or unclear about whether personal care is a universal entitlement for older people, based on an assessment of need, or whether councils had discretion to manage demand and prioritise services within their available resources."

The submission continues:

"While the Scottish Government has since provided clarification on entitlement, the principle of having clearly defined eligibility criteria is applicable to all universal services."

Will you comment on that, Mr Black?

Robert Black (Auditor General for Scotland):

Over the years, we have done a couple of pieces of work on this area, because it seemed to us to be important to do so. I will summarise in a few words the results of the study. First, there is no doubt that the service was very popular with the public. One of the features of universal services is that there is a pretty close link between the service itself and the beneficiaries. That is quite transparent and appreciated.

However, free personal and nursing care was one of the more prominent examples of an area in

which we made a finding that also applied to other pieces of work that we have done. We found that the upfront costing before the policy was committed to was not as robustly prepared as it perhaps should have been, and there was no absolute clarity around the benefits that were going to entail. In the earlier piece of work, we talked about that at some length. It is a prime example of a policy area where more homework should have been done in advance around the benefits and anticipated costs.

The work that we have done, and the work that has been done by the committee's adviser, David Bell, have provided some estimates of the future costs of the policy, which will be substantial, particularly in view of the demographic change that is ahead of us. It is interesting that, between roughly 2004 and when we were doing our report in 2008-09, there was no serious attempt to update the costs, although, by that time, it was clear that we were heading into some challenging situations.

For me, free personal and nursing care is as good an example as I can identify of the need to ensure that, in any policy area, we identify the implications of demographic change, estimate the cost of new policies that are introduced as best we can, and design those policies using some key principles.

First, who will benefit? There are significant issues about who benefits from free personal and nursing care. Second is the ability to pay principle: who needs the support and who can afford to contribute? If people are making a contribution to a service—whether it is free personal and nursing care, national concessionary travel or whatever—the budget will go further. The ability to pay principle is an interesting one; we could perhaps talk about it a bit more.

11:30

Third is what economists call the opportunity cost principle: if we do something, what can we no longer afford to do? The committee will be well aware from the evidence that it has taken of the tremendous pressures that are building up in health and social care in general.

There are also issues of equity and fairness. This is where we get into policy, and I will simply not go there—it would be wholly inappropriate for me as the Auditor General to do that. Any policy that is introduced must feel fair, and that is a judgment for politicians to make.

The final principle relates to intergenerational transfer. Free personal and nursing care is a good example of that, and David Bell and I have talked about it in the past. The point is that, by committing to policies now and making them a

contractual entitlement, we are building up tax burdens for our children and grandchildren. We should think very seriously about that.

The Convener: Thank you. I am glad that I asked you to kick off.

There are already a number of people who want to contribute, but before I let them in I want to touch on a point that Professor Robert Wright raised in our round-table session two weeks ago. He said that, although there is a high and rising cost to the provision of free personal and nursing care, the alternative policy would see more older people having to be in long-term residential accommodation, which would ultimately cost more money. We must consider not just the cost of implementing a policy but the costs of the alternative. Will you comment on that?

Robert Black: That goes beyond the bounds of audit evidence. However, I would say that the implications of the demographic change involve not only the growing number of people in need—the growing number of older people with chronic conditions, including dementia, and so on—but the supply-side issues. The workforce is shrinking, and we need to give equal attention to designing the services in the community and to ensuring that we have sustainable models of delivering healthcare in the community. That involves revisiting the expectations on us all as citizens to support one another in a community and thinking through from first principles the proper role of public sector and state institutions in assisting that.

John Mason: I am interested in Mr Black's comments, especially his stressing that we need better costing. If I understand Dr Walker's paper correctly, he states that the national health service has done well at being given a sum and getting on with it—it has done well at adapting to the money that is available. Is it not the case in a number of areas that organisations will adapt to what is available?

Robert Black: Can we take cost, access and quality together? Public managers are pretty skilled these days at managing within a cost envelope, and they have done very well in responding to top-down efficiency savings. However, a separate question is whether we are delivering the best quality of care and making it as accessible as possible with the available budget. That is the efficiency and effectiveness question.

I accept that the health boards have been very good at managing within their cost envelope, but in our reports we have presented on many occasions the challenging message that activity costing is pretty underdeveloped in the health service, as is the ability in forward planning to take into account things such as developments in medical technology and new drugs and build them

into the budget. The pressure in the base budget is building.

Professor David Bell (Adviser): I have a couple of points relating to what Bob Black has said. The first is about cross-cutting issues and touches on that last response. It is incredibly difficult to do the costing across silos. There may well be beneficial impacts on the health service from free personal care, but we do not really know and we do not have the mechanism to figure that out.

The other reason why the costing is difficult, *ex ante*, is that free personal and nursing care was a policy that was ostensibly about money but which has set in train a process of change in the system. The balance of care has moved much more towards care at home than towards residential care. There was much more emphasis on making the care-at-home system efficient; it was just going to be a more difficult thing to do at the outset. The committee needs to give serious thought to that, especially as the big thing about universal services is that they are open-ended commitments. I think that they should be revisited every five years to see whether they remain affordable.

Paul Wheelhouse: I accept Robert Black's points about the demographic change. We have taken evidence on that and the implications are clear. We heard that the share of the population who are aged over 85 will grow pretty rapidly. Much of the debate about universal services is about the cost, which is an important consideration for us as the Finance Committee. However, we have also heard from witnesses about the kind of society that we want to be. There is a judgment call—a value call—to be made about the value that we place on things such as quality of life and health outcomes for elderly people. We must decide how we view ourselves as a society and whether we care sufficiently about our elderly population to make decisions about free personal and nursing care that incur substantial costs.

It strikes me that a number of the universal benefits that we have talked about in the inquiry so far are preventative spending in that they prevent people from having negative health outcomes, negative social outcomes or a combination of the two. We heard evidence at our previous session that those who care for very elderly people are often elderly themselves and have their own complex medical needs. Leaving them to their own devices to look after their elderly relatives would place them in great difficulty and, in some cases, financial hardship.

Do the witnesses accept that there is an important value judgment to be made about the kind of society that we want to be and that, although cost is an important consideration to plan for, universal benefits are not a bad thing *per se*?

Professor Jim Gallagher (University of Glasgow): I will respond to Mr Wheelhouse's question before addressing the interesting point that Mr Mason made.

Yes, of course this is about values and choice. However, it is not about one value choice; it is about a choice of choices. If we spend the money on one thing, we cannot spend it on another. That is Bob Black's point about the opportunity cost: if we do one thing, what else are we not doing? That is where we make the value choice; it is not made in a vacuum.

On the financial issues, Mr Mason raises an interesting point. In the Scottish budget that you chaps are looking at, the services can be divided in all sorts of ways. Some of it is managed and some of it is demand determined. You gave the example of the NHS, which is a managed service. It has a budget and, within reason, it lives within that budget. You can set the budget at the beginning of the year and have a reasonable expectation that, by the end of the year, it will be in the right place.

Other services, particularly those that are based on entitlement, are driven by demand. Surprisingly few of those are in the Scottish budget—most of them are in the UK budget. The most obvious example of that is social security, on which we just have to pay what the rules say we have to pay. However, there are a couple of demand-determined bits in the Scottish budget, which, for that reason, have always been hard to manage. The obvious one—although it is relatively small—is legal aid, because there are rules and the number of cases determines the amount that is paid.

An interesting pair of examples relate to housing. Housing benefit, which is in the social security budget, is demand determined. A few years back, the UK Government ran an entitlement programme under the label of supporting people. As with the situation that Mr Wheelhouse described, that programme seemed highly desirable, but it blossomed hugely because it was entitlement driven. It was then transferred into the Scottish budget, so you chaps now have to worry about that particular bit of demand. It has to be managed down, which the Scottish ministers are doing, but that is not easy.

Through entitlements, we have—with the very best of intentions—created demand-driven engines in the budget. Student numbers, bus fares and free personal care are probably the three largest ones. With a demand-driven system in a fixed budget, you are not as in control of your choices as you need to be. I am attracted by David Bell's idea about considering whether those entitlements can be sustained over long periods. They cannot be cut off just like that—we need to

think strategically about how to manage that over five, 10 and 20-year periods.

Elaine Murray: I want to elicit comments on what is probably a much more fundamental issue that is about the sort of society in which we want to live. Either we can pay a significant level of taxation and receive universal benefits—in which case, the contract that people have with the state is that they pay their taxes to receive what they need—or we can pay less taxation and have benefits that are targeted at people who need them, while others have to make their own provision. The benefit for them is that they have a choice about the provision that they want to make.

There has never been a fundamental discussion about why people pay taxes. Most people do not want to pay taxes, but they want to have universal benefits, which, to be frank, does not stack up. I am interested in the citizens jury project and how people's opinions changed when they began to consider such issues in more detail. In Scotland, we have only limited tax-varying powers but, irrespective of the way in which the referendum goes, we will doubtless have greater tax-raising powers in the future. Surely we need some form of debate about the model that we want to follow—the Nordic model or the Irish one.

Professor Bell: As my background paper for the work programme points out, the tax to gross domestic product ratio for the UK is pretty much smack in the middle of those for the developed countries. Elaine Murray poses exactly the right question, which is about whether Scotland wants to move up or down that spectrum. However, although the hadron collider might be able to do it, Scotland cannot be in both places at once.

Professor Jeremy Peat (David Hume Institute): I congratulate the committee on running this series of four round-table discussions. It is good that you are tackling important subjects in that way, so I thank you for that.

I have two fundamental points. One is that it is crucial to think about the opportunity costs, which, sadly, will get higher in the next few years. There is no easy outcome from the situation that we are in and the public finance position. Whether we have devo max, independence or the status quo, it will be tough. The choices will get more and more difficult and what we cannot do will get more and more valuable. It is therefore crucial that we think in those terms.

One of the difficulties with tackling universal benefits is that they are popular—of course they are popular; we all want them, but everyone wants a lot of things—so, if one tries to question them, it makes one appear to be of a Thatcherite persuasion. However, there must be questions.

11:45

I am on a Church of Scotland commission on the economy, which will report soon. That has made me think long and hard about the issues and about equity and fairness. When universal benefits—which are expensive—are in place, it is difficult to challenge them. That means that other things do not happen that may be of more value to the people in society whom one is trying to help.

As David Bell has pointed out in previous papers, many universal benefits tend to be regressive. In other words, they tend to benefit more the better-off than the less well-off in relative terms. One needs to bear that point in mind when one considers the issue.

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

The examination should be not only of the costs; it should be an examination of the costs with a view of the opportunity costs—I am sure that David Bell and others could advise the committee on what they were and how they were changing—and should also consider options. There are always options. For example, should bus passes start at 70 rather than 60 or 65? Should we ask whether the availability of some services should be limited to particular groups?

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

I am very supportive of examining universal benefits periodically, but one needs a framework that forces a decision to be taken transparently and objectively in a specified period with information about the costs of the options and a view of the opportunity costs at the time. That would be really helpful. It would be tough for the committee and MSPs, but it would lead to good policy making.

The Convener: There is a wee bit of circling of the wagons. Not many people have come down to saying whether specific universal services should continue, so I hope that, one way or the other, there will be a wee bit more bite as we progress. [*Laughter.*] I am just trying to stir things up.

Paul Wheelhouse: There is clearly an opportunity cost to investing in universal services. I do not deny that. As an economist, I would be failing my lecturers at the University of Aberdeen if I did not mention it.

However, there is also an opportunity cost in that, if we start from the status quo—we already have universal benefits—and make a conscious decision to cut back certain benefits and universal services, such as bus passes or free personal and nursing care, there will be consequences for public spending in other areas.

The convener made the point that a higher proportion of folk might be in long-term residential care if they are not enabled to live in their own houses for longer with support under the free personal and nursing care policy. One of the best examples of preventative spending is free eye tests, which are also a universal service and can save an absolute fortune for the health budget if a condition is picked up early.

I made too much of the apple pie and motherhood that we talked about earlier, but there is also good financial common sense in taking the universal approach to some benefits: it saves money for some key parts of our public services, such as acute hospitals. I wanted to make that point before the discussion developed.

Graeme Downie (National Endowment for Science, Technology and the Arts): I will pick up on Paul Wheelhouse's earlier point about the type of society that we want to see, and come back to the other point that he has just made. There is a sense, as Professor Bell mentioned in his paper, that universal provision conveys a sense of shared responsibility for society.

However, we must be careful about polarising the debate between universal provision and means testing. Paul Wheelhouse's point illustrates perfectly the good examples of where investing in universal services could save money down the line. There are increasing costs for things such as diagnostics for particular diseases, where a universal type of treatment might be more beneficial.

That brings us back to the point that Mr Black made at the start: it all comes down to having the right analysis and the right data available when a policy decision is being made. There is a bit of conflict between the information that is available from academics and from others, and around how that is interpreted in the policy arena. We need to watch that carefully.

We have been doing some work with the Washington State Institute of Public Policy, which, as members may be aware, does some stringent cost benefit analysis around preventative spending

in particular. The committee might want to look at that in future.

With regard to Elaine Murray's point, which was also covered in the previous session with Will Hutton, people are not stupid: when they are presented with the relevant information they tend to be very good at making the tough decisions that politicians and others are not always particularly good at making.

We ran a project called the local budget in some areas in England, which showed that people are keen to make those decisions for themselves. I look forward to hearing more from PricewaterhouseCoopers later about its citizens jury, which showed very similar results.

Dr Andrew Walker (University of Glasgow):

One of the questions that I considered in preparing for this session concerns the definition of the word "universalism" that we are grappling with. One issue is whether a specific service should be targeted, or whether it should be available for everyone. Another issue concerns the group of services that the independent budget review defined, which Audit Scotland suggests costs £870 million a year. The third issue is the question—obviously I am coming from the healthcare side on this—of whether the NHS should remain as a universal service. The debate sways back and forth around those three questions.

In the health policy world, at least in Scotland, we hardly talk about the second or third of those questions; the debate is mainly about specific services. As members may know, much of my work involves looking at new medicines and trying to decide whether they should be available to everybody who has the specific disease or only to a particular group within that.

We do much of the same type of cost benefit analysis work—and have a lot of the problems with costing—that Robert Black spoke about. We also touch on things that Paul Wheelhouse mentioned, such as having to value outcomes. If a new medicine costs an awful lot more money for only a small amount of benefit, is that good value or not?

There are ways in which we can take what could be a demand-led service and make it into a managed budget service by using that sort of capping mechanism. There is an interesting issue around the extent to which an organisation such as the Scottish Medicines Consortium devises its own set of value judgments on how much we are willing to pay for good health, and the extent to which that should be a broader debate that includes the Parliament and the people of Scotland.

I will take up your challenge to give the discussion some bite, convener. If we consider the independent budget review's group of services that costs £870 million, the issue in healthcare would be whether we should reverse free eye tests and prescription charge abolition, and put those charges back on again. As I see it, that is the policy question for the NHS.

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

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

It is not a simple question of having universal or user charges; there could be user charges on a flat rate for everyone, or user charges for a selected group. The problem is that you have to ask the question, "To what policy issue is imposing user charges the answer?" because they are not great for revenue raising.

There are 5 million people in Scotland and they visit their general practitioner perhaps twice a year, so that is 10 million visits. If we had a policy of charging £10 per GP visit, that would raise £100 million. That is a not inconsiderable sum, but it is less than 1 per cent of the NHS spend in Scotland. Would it be worth the hassle that we would go through to raise that amount of money? I cannot answer that question, but I lob it out there.

The Convener: That is interesting. I call Michael McMahon, to be followed by John Mason.

Michael McMahon: It is right to say that it always comes back to politicians. We have to make a judgment call based on the information that is put in front of us. Mr Downie, Dr Walker and Mr Black commented on the availability of statistics that would allow us to make such judgments.

I am always happy to please the convener, so I am happy to say that I believe that we should look again at prescription charges and consider whether we can sustain paying tuition fees for university students. We talked earlier about the

directors of Tesco. Is it right that we continue to pay for their sons and daughters to go to university for free at a time when ordinary working people who work for Tesco cannot afford for their kids to go to university because we are already paying for their directors' children to go? We all have to answer such questions, but we have to do it on the basis of information on what it costs us.

To use Audit Scotland's figures as an example of how diverse the figures can be, I note that the information that we have states that the cost of the concessionary travel scheme was £187 million in 2008-09 and £189 million in 2010-11, so there was an increase of £2 million. However, Audit Scotland concludes that, by 2025, the cost could be between £216 million and £537 million. There is a huge difference between those figures. We could have an increase over 25 years of no more than £27 million, or we could have an average increase of £27 million a year over that period. That is a huge difference in the statistics.

If we are to judge whether we can sustain the concessionary travel scheme over a period of time, we need statistics that allow us to say whether the cost will be close to £216 million, which might well be sustainable, or close to £537 million, which would be prohibitive. Unless we get the statistics, we cannot make a judgment on whether we can sustain free tuition fees, free prescriptions or free travel. Whatever the will of the politicians, if we are to make judgments on those things, we need to make them on the basis of firm statistics.

With reference to Dr Walker's comments, when I have spoken to health officials about prescription charges, they have told me anecdotally that they do not think that the cost of prescriptions is having a huge impact. Doctors are being a bit more reticent and careful about signing prescriptions. However, costs are coming to the health service because people know that, if they get a prescription, it will not cost them anything. The number of people who want to visit their doctor has increased, and that is where costs are coming from, which is putting pressure on the health service. Unless we get statistics on and an analysis of that, the judgments that we will ultimately have to make will be difficult.

Unless we can get the Government to produce statistics—we talked earlier about the metrics and the projected costs—we are just shooting in the dark, are we not?

The Convener: Michael McMahon has made some important and valid points. Politics is the art of the achievable and it is also about choice. We can always quote extremes, but the important point about universal services is how they impact on people at the margins, and we should also

consider their effect on the uptake of such services.

We have argued many times that we need more robust data, and we have certainly made that clear to the Scottish Government. However, projections are more difficult to make the further ahead that they are made.

I call John Mason, to be followed by Robert Black.

John Mason: Thank you for letting me back in.

The convener asked us to nail our colours to the mast—is that what it was? I believe that we must protect what we have and seek to expand universal services in the long term. Elaine Murray said, correctly, that we need to have that debate. I agree. As Professor Bell said, perhaps we should have it as a regular interlude.

It is interesting that, in the independent budget review and a number of other papers, it is the newer universal benefits that are under attack. If we go back on things like prescription charges and concessionary travel, is the next step to eat into the health service and education? One of the arguments that comes through in some of the papers is that people can afford to pay for their bus travel. Well, people can afford to pay to send their kid to a comprehensive school. Is that the next step? People can afford to pay for an ordinary operation on the NHS, so is that the next step?

12:00

I would like to hear comments on where we are drawing the line. Is it just a matter of new and old, or is there some other reason? I am also interested in the point that Elaine Murray made about the citizens jury project. People went into that and, two days later, they had all moved to the right wing, or something like that. I would be interested to know from PricewaterhouseCoopers whether the jury was made up of experts who were all of a capitalist persuasion, or whether some were more of a socialist persuasion.

Will that do, convener?

The Convener: Yes, indeed. You are not throwing the cat among the pigeons or anything, are you? That is good; it will stimulate folk's thinking.

Robert Black: I am tempted to respond on the point about the citizens jury, but I will leave that for Paul Brewer to explain. I took part in the project and it was great fun. A real cross-section of folk out there in the street took part, and it was a really interesting and positive experience, but that might be for later.

Michael McMahon's point was about concessionary travel. A moment ago, the

convener challenged us to get real with some of this stuff. If I were to be polite, I would say that the devil is in the detail. Being less polite, I think that it is time to get down and dirty. It is tempting—we all do it—to talk generally about the type of society that we want and so on, but I will stick with the example of national concessionary travel. Those were broad projections but they contained some real short-term numbers that highlight some stuff that we must all consider. Within the national concessionary travel scheme, if you take the census data and look at the 60-plusers who are still working, you can do a fairly crude but nevertheless reasonably okay calculation that the cost of providing free transport to people who are over 60 and still in employment is £34 million or so. That is dead-weight expenditure if ever I saw it. The taxpayer is paying out that money unnecessarily. I do not think that anyone who is in employment should feel that they are entitled to travel free to work.

The Government estimates the cost of providing free eye tests to be about £87 million. An interesting question arises: is it better to have free eye tests for everyone at a cost of £87 million, not least because that contributes to the early detection of glaucoma and high blood pressure and so on, or could we fund some of that £87 million by the reasonable expectation that those of us who are over 60 will pay for our journeys to work? The Government could meet the cost of 40 per cent of the free eye tests by shaving concessionary fares.

That is what I mean by getting down and dirty. If we start to look at the numbers, there are some real choices to be made a level or two down from the generalities. That is where the link back to Paul Brewer's interesting points on the citizens jury goes. When we present such information to folk, they recognise the reality of it. It is a case of finding a narrative that people can buy into.

I rose to your challenge, convener, and I think that I will stop now.

The Convener: I am pleased that you have, and I am sure that Paul Brewer will want to speak to his report later, given the number of people who have commented on it.

Elaine Murray is keen to come in with a brief supplementary.

Elaine Murray: I seek clarification of how the £34 million was calculated. Was it on the basis of the number of people who are over 60, who are in work and who are entitled, and the number of journeys that they are likely to take to work? Is there a statistic that says that £34 million is being used by people who are in work? It is important to understand exactly what the statistics mean.

Robert Black: I apologise—I cannot give you chapter and verse. I would be happy to supply the committee with a note. It is a ballpark figure, which involved looking at the number of people over 60 who are in full-time employment, of whom there are about 220,000 in Scotland, and then looking at the take-up of concessionary travel passes and applying that to the labour force number. We do not have figures for the over-60s, so it is an approximation. Quite frankly, it is the sort of thing that we should analyse in more detail.

The Convener: James, you are in that category—

James Dornan: It is not my birthday yet—I am surprised that you do not remember. Thank you for that.

I will pick up on a couple of the points that have been made. I agree with John Mason that we should hold on to the universal benefits that we have because that sends out a message about the society that we want to live in.

Michael McMahon made a point about visits to the doctor and free prescriptions, and the effect that more people going to the doctor is having on the uptake of prescriptions. Until we get a full and in-depth analysis of cost, we will not know what is happening, but perhaps that suggests that, because people do not have to pay for prescriptions, they are more willing to go to the doctor. In the long term, that might well save money in the NHS, because people are being treated cheaply at an early stage.

I understand why anyone would want to use the Tesco example in relation to student fees. That is fair—a working-class kid should not be disadvantaged to pay for a multimillionaire's son or daughter to go to university, but what about those who are on the margins? If we were to introduce student fees at a certain level, how would that affect the people who were just above that level? Wherever we set the level, someone would just miss out. That is extremely important. A lot of work needs to be done to see what the cost would be for individuals and for the budget as a whole.

Paul Wheelhouse: I have a brief point. In a previous session, we were given evidence on the concessionary travel scheme. Elaine Murray and I asked about its effectiveness in rural areas as opposed to urban areas. If we are nailing our colours to the mast, I would not want to see the concessionary travel scheme scrapped—far from it, because I think that it has great value, where there are bus services that can be used—but I would be keen to get views from those who have looked at the issue on whether there is a need for a differentiated scheme for rural areas. Something needs to be done to enable the scheme to be more effective, because it is clear that there are

large parts of Scotland where there are very few, if any, bus services, which means that its effectiveness in delivering the desired social impacts is somewhat limited.

Professor Gallagher: If the Auditor General can get down and dirty—which is a great event for the nation—maybe I should mix it up a little just to stir up the committee.

It is very easy to say, “I like the present benefits. I wouldn’t want to take any of them away—indeed, I’d like rather more of them,” but it comes back to choice. Let us leave the tax question aside for the moment, because there is always an issue about increasing tax, which no one is terribly keen on. We should forget about tax for now, because at the moment we are looking at a fixed budget.

If you spend money on universal services based on entitlement, you will not spend it on employing people and paying them wages. If we look at what has happened over the past 10 years, we see that public expenditure since devolution has gone up hugely. It turned out that we were spending money that we should not have had—we were spending fairy gold—and we are retrenching now. Over that period of 10 years or so, we spent money on three things. We spent some of it on improving the infrastructure—that was a good investment, but capital has now been cut—we spent some of it on increasing the number and the wages of people in the public sector, and we spent some of it on entitlement services.

Some of that spending will have to give. Capital has already given, so if we maintain entitlement services, the inevitable consequence, if we do not put up taxes, is that we will employ fewer people or we will pay them less. In a fixed budget, that is the arithmetic. That is a political choice. It is possible to make a case for either option. Quite a good case can be made for free services, but a jolly good case can also be made for folk having jobs and wages.

To mix it up a wee bit further, I suggest that it would be good to look at the entitlement services. If it was down to me I would set some criteria for whether to keep any individual benefit or change it in some way. Those criteria might be something like ease of co-payment. It would be a real hassle to put a £10 note through the doctor’s box, as it were, but it is relatively easy to pay on the buses.

I would also think about regressiveness. If the whole purpose of benefits is to send a signal about the kind of society we want, the ones that we should concentrate on most are the ones that benefit the less well-off most. That is an interesting test for existing benefits.

I would then look at how much money was involved, because, at the end of the day, this is a budgetary decision. Finally, I would look at the

extent of the truth in the stories that we tell ourselves about how preventative things are. How many eye tests does it take to prevent one case of glaucoma? How many people discover high blood pressure at the optician’s? Might it be better to make it obligatory for opticians to pay for eye tests, since they make a fortune out of flogging the spectacles that follow from them? There are always options.

Once I had looked at that set of rules, I would ask in what order I should look at the services. I would look at buses first. It is barking, frankly, that we send bus passes to 60-year-old judges of my acquaintance who are paid £140,000 a year plus a generous pension. That is not right.

I would then look at students. I would not necessarily say that we should fix the fees, but there are things that we can do at the margins. For example, is it right that all students get interest-free loans for their maintenance? They get their fees paid. Do we have to subsidise every student’s learning? The answer is not obvious.

I would then look at free personal care, because of the regressiveness issue. Free personal care principally benefits the children and grandchildren of the better off. It is folk who inherit who get the economic benefit of free personal care. There are other benefits, but the economic benefit goes to them. John Mason is right. We are reasonably entitled to ask, “What about all the other stuff we get free? What about libraries?” That is a good question. However, those are the ones I would start with. The convener told us to stir it up. It is stirred up.

The Convener: Thank you for that. It is important that we bring these things out into the open. I will let Michael McMahon in with a brief point, followed by Professor Peat and John Mason. Time is against us, so I would like to move on after that. I give Graeme Downie a bit of advance warning that I want him to touch on his make it work pilot scheme in Sunderland and to talk about improving services. I would also like Paul Brewer to talk about his report on the citizens jury at some point.

Professor Bell has to leave because he has exams. [*Laughter.*] I hope you pass.

Michael McMahon: This is a follow-up to what Professor Gallagher was saying about the benefit of testing. I used this anecdote a couple of weeks ago and we never really got into it but the discussion has come back to that point again. We are focusing on preventative spend. The issue of testing people at certain ages to check whether they will have ill health later on was raised with me by a consultant in my local area, who said that as soon as someone reaches 50, they start to get checked for cancers, but the likelihood is that

nothing will show up and they will present with cancer in future as an acute emergency. Therefore there is no real benefit in doing mass screening for particular illnesses. That falls under the category of preventative spend but it is a preventative spend that is extremely costly and does not meet the aim of identifying and cutting costs at the other end. Even when we talk about the good policies and the things that everyone would agree with, we still have to get it right and ensure that the money that we are spending achieves the outcome that we want.

The Convener: I know that Andrew Walker wants to come in, but Professor Peat has been very patient.

12:15

Professor Peat: Thank you.

First, I return to a point that John Mason made about challenging existing universal benefits and the risk that that raises of challenging free health and primary education services and so on. I assume that the Parliament and the citizens of Scotland see that there are various critical requirements that exist at all times and that one does not challenge the provision of free health and education services and a decent standard of living for all citizens. If we look at universal benefits, it is necessary to consider whether there is a set of such benefits that absolutely does not get scrutinised because they are fundamental human rights. I leave that issue for the politicians to pursue.

Secondly, I return to the question of nailing one's colours to the mast. I am one of those in the category that Bob Black talked about, with my free bus pass, which I did not use this morning, although I should have. I, too, feel somewhat guilty using it, as I do when I receive a Christmas fuel allowance. I wonder whether I should pay it back. I make my own decisions on charitable giving, but I see no reason why I should receive a bus pass or why my wife and I should receive the fuel allowance. I would much prefer that that money went elsewhere, to others who have more need of that particular provision.

Higher education is a very difficult issue. I understand the point that has been made about those at the margin. If there is a move to a system involving some form of payment, it should be made after the event by those whose income has reached a certain level and on a tiered basis, so that there is not a sudden movement to paying everything back, but a movement to people paying back a growing proportion of their income as it reaches different levels. Mechanisms can be introduced. The difficulty is that the money is not received up front and some way of organising that

system has to be found, but there are means by which some of the costs of higher education provision can be clawed back from those who go on to earn very large sums. That is appropriate.

I think that that is particularly the case when I look at the direct opportunity costs in the education budget. I am wholly convinced of the requirement to put as much as possible into early years provision and to work on that area. When I look at costs that are broken down by different segments of education I am worried by how HE dominates in spend per head and per segment of the population compared with early years provision and, indeed, primary and pre-primary provision. I would like to see an ability to vire amongst that.

There were a lot of quite happy HE principals and a lot of very unhappy further education principals after the budget that members are currently discussing. Was that the right decision? Is it right to rob FE to pay HE in order to continue free tuition for all in the HE sector? I am not sure that that decision was right.

I also worry about the perverse incentives that may arise in the HE sector. If I were a university principal and saw the way things were going, I would want to maximise the number of people who come to my university from locations where big bucks are paid. I would also want to maximise the income from overseas activity, as I would face a tight budget and would like to get those income flows coming. I would not necessarily have the education of Scottish students at the top of my priority list.

If I considered what I wanted out of the HE sector in Scotland, however, I would put high on my agenda the education of Scottish students and those who may stay in Scotland and research that will benefit the Scottish community. The incentive mechanisms that are set up by the fees structure and the way in which budgets work may not provide the same motivation for principals and courts that one would like if one was looking at things from the viewpoint of the interests of Scotland as a community and Scotland plc.

My final point is about looking at where to go when thinking about reducing universality. One consideration is the benefits and to whom they apply. Another is the costs of administering alternative schemes. In some cases, it would be incredibly expensive to unpick what one has and find an alternative means of judging who gets what. It would be unwelcome to save £50 million of benefits but spend £40 million on the administration of that. Look at the costs of administration. As Jim Gallagher said, buses would be easy, but it would be difficult in other areas. Look at the details; get down and dirty, if you like, on individual areas, and be prepared to

ask the difficult questions and think about some reduction of universal services, even in areas where they have existed for some time.

The Convener: Dr Walker can come in now, to be followed by John Mason

Dr Walker: Thank you for giving me the opportunity to respond to Michael McMahon's point, convener. I am aware that I am jumping the queue.

I agree with what Michael McMahon said. One of the big dangers of policy making is that simple messages come through, such as that prevention or public health or any cancer service are good things, and that anything that has that label must be supported. Having worked in and studied the health service I can say that that is far from true. Michael McMahon gave an example of a preventative service that might be a very poor use of resources. I am intrigued to know more about that example, but I can perhaps ask him about it afterwards.

The broader principle is the basis on which we introduce such services, or any policy. Do we do that on the basis of something like a cost benefit analysis that presents all the numbers? That is one way to go. Or do we go down the route that some members have described as the approach that decides what type of society we want to live in? In the past decade, health policies from all Administrations have taken that approach. With the current Administration, it might be about prescription charges; with the previous Labour Government, it might have been about reducing waiting times, whereby it was decided, "We're going to do this, then we'll just pick up the bill when it comes along." That is an alternative approach that is perfectly legitimate, but there is an issue for the political class about where the balance lies between those two things.

John Mason: I want to press Professor Gallagher on his point, which I think was that we are choosing between universal services, and jobs and wages. Surely, whatever we do, there will be jobs and wages. The issue is whether they are in the public sector or whether they might involve, for example, bus drivers driving all the 60-year-olds around.

Professor Gallagher: Or they might be profits for the bus companies, because an extra fare does not require an extra driver, or they might be profits for other suppliers. Yes, the money will be in the economy somewhere, but it will not necessarily be in public sector employment.

The Convener: But the people who save money on the bus fares will spend it in shops or whatever—it will still circulate.

Professor Gallagher: A multiplier effect.

The Convener: Indeed, the gearing effect.

Graeme, I am keen to look at some of the work that NESTA has been doing. I thought that some of it was quite interesting and innovative. Can you touch on that for us, please?

Graeme Downie: Certainly. NESTA's position is that the debate is not polarised between universal services and means testing, or anything else, but that the crucial point is that the service does what it sets out to do. The expected change in demographic and social problems will far exceed the pressures put on the systems by universal services. Our figures put the cost at about £27 billion over the next 15 years for the implications of the demographic and social problems that we will face, which I am pretty sure Audit Scotland will confirm will dwarf the cost of universal services in the future.

Our view is that, although it is important to look at the type of society that we want in the future and at the best way of achieving that, the best way of tackling a problem is to find the communities that you are trying to speak to, speak to them very directly, offer them the choices and work very closely with them to design the proper intervention. In that way, you come across the real problems, as opposed to the problems that we sometimes perceive from our more detached worlds.

As the convener said, we drew a number of examples of such programmes to the committee's attention in our written submission, including the make it work programme in Sunderland. It identified a clear problem and people were put on the ground to work day to day with the local community. Not only did they solve the problem, they were quite convinced that they solved the problem to the extent that they saved money as well, so it was the perfect win-win situation. It is not necessarily the case that that exact model could be translated from Sunderland to a part of Scotland, but we think that the way of working and the way in which the solution was developed can be transferred.

Dr Walker mentioned that when you put a particular tag on something, it automatically becomes popular. Without getting too buzzwordy, I will say that we have done an awful lot of work in Scotland and in the rest of the UK on the idea of co-production—a service is co-produced with users on the ground. In Scotland, we ran a programme called age unlimited Scotland that was quite community oriented and looked at working in very small communities with people aged over 50 and finding ways in which to keep them more active in older age. The problem was twofold. It was partly a preventative spending issue because, if you keep people more active in their old age, they are less likely to need services. However,

rather than coming in with a solution, we asked them what they would like to do and what would help their wider community as well as themselves, and they came up with some interesting suggestions through that process.

Such initiatives seem like something that can be done only by local authorities, rather than central Government, but there is a sense in which Government can create the conditions under which those solutions can take hold. The problem is, of course, that Government has to take its hands off the process once it has created the conditions—it has to leave things alone and see what happens.

We have some experience of that through our work on a programme called the big green challenge, which was about creating community-led responses to climate change. Since we set it up in 2007, I have spoken about it to a number of people. It involved a £1 million challenge prize on carbon emissions. At the time, people said to us, “You’ll just get the usual suspects and the kind of more middle-class communities who are interested in that kind of thing.” However, we found quite the opposite. When presented with a key challenge about an issue that people saw as affecting everyone, we found that communities coalesced and expressed interest in the programme in rough areas of London, such as Kings Cross, and in Nottingham and other places like that.

If you create the right conditions, you will be amazed by people coming up with better solutions than Governments can. What is important is the need for Government to take its hands off the process sometimes, although it must maintain a safety net and ensure that it is not withdrawing a service that is required by the more socially disadvantaged groups.

The Convener: Your submission says:

“NESTA’s experience supports the suggestion that one of the biggest challenges in radically transforming services is how to disinvest resources away from one service to invest in another. This is particularly the case in a context of reduced public spending.”

Can you comment on how we can achieve that? Obviously, some of the projects that NESTA has managed provide examples of that.

Graeme Downie: To some extent, it is a chicken-and-egg situation. You cannot and should not disinvest in a service before there is something coming down the line. That comes up an awful lot in discussions around preventative spending. The expectation is that, if you invest in a preventative measure, you will be able to disinvest from the more acute care that would otherwise be given later on. The problem is that you cannot disinvest from the acute care until you are convinced that

the preventative care has been effective. I do not think that there is one solution in that regard—we are certainly not suggesting that we have that solution. We are trying to point out that, at a local level, you can start working with those examples. The challenge is always how to scale up those examples into a region-wide or Scotland-wide initiative.

Some of the disinvestment has to happen as a result of the increased financial pressures. Money is being taken out of the system, but where is it being put? Do you have to take £100 million out of a particular system? If you took £90 million out, could you spend the £10 million somewhere else? That is the balance that has to be got right. I am afraid that I will join in the buck passing that has been going on, because I am afraid that that becomes a value judgment for politicians. At what stage would you feel comfortable disinvesting in acute services and investing that money in scaling up a preventative initiative that will save you money down the line?

The Convener: I think that you have hit the nail on the head. There are many innovative and successful projects out there, but there does not seem to be a way of ensuring best practice in order to ensure that such projects are implemented in other areas.

Graeme Downie: I think that the solution is beyond the measure of just sharing best practice.

The Convener: Culture change.

Graeme Downie: Yes. NESTA is keen to work on the creation in Scotland of the kind of accelerator system that is used in the private sector in America and in parts of Europe whereby, if you get a really good idea, you rush it through quickly, with intensive support, and ensure that it can be scaled. What often happens with such good ideas is that, even though they might work well locally, Government or other parts of the country do not say, “We can steal that idea. Can you work with us to adapt it to other circumstances?” Instead, people take the existing model and try to apply it directly, which is usually not as successful. We need to ensure that the approach is changed so that the conditions exist that enable people to use the lessons that can be learned from an initiative, rather than just adopting the exact form of implementation.

The Convener: PricewaterhouseCoopers’s citizens jury has been referred to by various people around the table. Paul, could you talk us through it?

12:30

Paul Brewer (PricewaterhouseCoopers): To put the citizens jury into context, I should say first

that the motivation behind it was our engagement with the Christie commission on the role that we might play in helping to expand its evidence base. The commission was quite aware that, with evidence-gathering sessions, including those to which the public are invited, the people who attend tend to be those who have opinions, so the commission was quite interested in the idea of using a professional public opinion research consultancy to get access to the views of a genuine cross-section of Scottish citizens.

The 24 people who took part were—as far as they could be—a statistically valid representative sample in terms of where people live, their age, whether they are in work, their ethnicity and so on. What we sought was a group of people who after two days would be able to say something of value to the Christie commission on their perception not just of what they want specifically from public services but of the values that should underpin the services. What, to them, would make a good system of public services?

With regard to the process, as Robert Black has pointed out he and others provided the group with briefings. However, that particular part of the content was relatively contained. People very much had the opportunity to discuss the issues in groups, and to reach conclusions and share them with the rest, which culminated in a collective view that a number of the jury presented directly to commission members and the supporting secretariat.

What I find interesting is how much of what the witnesses have said this morning was alighted on in one way or another by that group of people. Indeed, we have been surprised in a number of ways. For example—reflecting Graeme Downie's point—I found it interesting how the group was able to identify issues and to move quite quickly to having views on tough decisions. Of course, that is very different from having to implement such decisions.

Moreover, when the group first got together, they were quite fearful about the current and future state of public services—more through uncertainty, than anything else. They could see that a period of austerity lay ahead and that significant cuts to public sector budgets had been made, and there was a lot of concern in the group about whether the services that they valued were going to continue to be provided in the same way. However, the whole tone changed when the scale of the spending cuts was put into context. For example, people were very surprised by Robert Black's analysis, which demonstrated that real-terms spending was going back to 2007 levels, rather than to the levels of the last century that they had expected. It took them away from their initial concern and defensiveness about preserving

what we have and gave them confidence to get on the front foot and to say what they want from their public services. As Robert Black said, the group was very engaged and the debate was very lively.

In saying what they want for public services, the group was asked to come up with descriptive phrases on which everyone could agree. At the top of the list, of course, were fairness and accessibility for people who are in need. However, we did not expect to see the word “disciplined”, and I think that that showed the group's understanding of the fact that, if choices have to be made, they have to be made on an evidence base and in a robust way. As citizens, they felt that such evidence gets played out only in the media and in a way that they cannot access. They want confidence that public bodies and politicians, in making decisions on allocation and in implementing spending decisions, have such robust analysis to hand.

Another interesting adjective that was used was “entrepreneurial”. That had the flavour of a desire for more collaboration between public sector bodies. The group felt that the public sector, collectively, is relatively static in how it does things and they were interested in the concepts of co-development of services and community engagement. There was enthusiasm for some of the different ways of developing public services that Graeme Downie outlined.

An important underpinning concept was honesty: the group wanted to trust services and how they are delivered. There was a fairly strong theme of personal responsibility, which is what led the group into things such as enthusiasm for co-design of services.

Another overarching theme was a recognition that the demographics behind public spending are changing. The participants were anxious for more comfort that decisions are taken with a long-term perspective. In the context of universal benefits, there was strong awareness that demographic changes will impact on the take-up of services for older people. There was enthusiasm for a demonstration that government, in making decisions, looks at the longer-term evidence base. The group did not necessarily have a well-developed articulation of how they wanted that to happen, but they had the sense that long-term planning does not happen in government in the way that they would like.

At the end of the process, the people felt that they had reached different conclusions from those that they might have reached without a base of information; they felt better informed. To illustrate that, I point out that one of the people made a request for Robert Black to appear on television monthly.

Paul Wheelhouse: Getting down and dirty. [Laughter.]

Paul Brewer: The group felt that, day to day, they do not have the evidence to form views and to reach the conclusions such as they reached in the session.

On priorities, there were no surprises in what the group saw as being essential and fundamental: healthcare, education and emergency services. They also came up with things that would be ideal to have and which they therefore felt are very important. This was perhaps just a feature of the particular group, but affordable sports and leisure facilities were a high priority because of the widely spread demographic. The group also included free library services and high-quality infrastructure.

The universal services that have been discussed today were thought to be nice to have rather than essential. When we get under the skin and consider what led to that, I think that part of it was to do with the dynamic of the group as it considered spending choices in a constrained spending environment. There was nervousness about some of the points that have been raised today to do with universal services passing benefits to those who can meet the costs under their own steam. There was debate about the behavioural impact of free prescriptions. On tuition fees, some of the points that have been discussed today about benefits, in constrained times, going to those who can meet the costs from their own resources, were made. The group questioned whether the resources that are tied up in that could have a higher impact in other areas of public service if they were taken away from those who can afford to meet the costs. There was concern about ensuring that protection is provided for those who need support in paying for those services, all of which were seen as being exceptionally important.

The group did not discuss how to make those choices and to prevent the problems of people dropping off the cliff edge of entitlement. When a line is drawn, there is a binary choice between those who have entitlement and those who do not, at certain levels. None of those issues was developed.

That gives the committee a flavour of the issues that were raised. All those services are highly valued. The questions were to do with prioritisation in a system in which spending is constrained and decisions must be made.

The Convener: I noticed that 75 per cent of the people said that they would be willing to pay more taxes or charges to safeguard public services, which was a doubling of the figure from before the process started. That is interesting.

I am conscious of the time—it is 12.40 and the Parliament will meet today at 1.35 and we still have an item on our agenda. I therefore have to bring the discussion to a close, but Paul Wheelhouse has been trying to say something for a while, so I will let him have the last word.

Paul Wheelhouse: It is about Mr Brewer's interesting study. There was a transition in people's views during the session. Personally, I am not particularly clear about the costs of administration of means testing and other measures, but how clear was it to the people who took part in the session that a cost would be incurred in taking away universality? We would need an administration to decide who was eligible, unless there was a technological solution through which people were passported to get certain services, perhaps because they had access to a particular benefit. Was that explored at all?

Paul Brewer: No. The mechanics of universal benefits were not explored. However, the group would recognise that point. Because we had a relatively constrained timescale and we were trying to get a sense of the group's values in relation to public services and their prioritisation, there was no opportunity to go into the practicalities.

The Convener: I thank everyone who participated in today's discussion. I now close the public part of the meeting.

12:42

Meeting continued in private until 12:48.

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