



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 31 October 2012

Session 4

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FINANCE COMMITTEE
27th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

*Michael McMahon (Uddingston and Bellshill) (Lab)

*Elaine Murray (Dumfriesshire) (Lab)

*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Callum Chomczuk (Age Scotland)

George Hosking (WAVE Trust)

Margaret Lynch (Citizens Advice Scotland)

Robin Parker (NUS Scotland)

Ruchir Shah (Scottish Council for Voluntary Organisations)

John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)

Maureen Watson (Scottish Federation of Housing Associations)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 5

Scottish Parliament

Finance Committee

Wednesday 31 October 2012

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

Interests

The Convener (Kenneth Gibson): Good morning and welcome to the 27th meeting in 2012 of the Scottish Parliament's Finance Committee. I remind everyone present to turn off any mobile phones or BlackBerrys. I welcome to the meeting and to the committee our new member, Jamie Hepburn, who replaces Bruce Crawford. I thank Bruce Crawford for his brief but productive time on the committee. I certainly hope that Jamie lasts somewhat longer than his recent predecessor. It has been a bit like musical chairs of late.

Agenda item 1 is a declaration of interests from our new member. I invite Jamie Hepburn to declare any interests that are relevant to the committee's remit.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): I will see how it goes before I decide whether I share your hopes for a long spell on the committee, convener.

I have no interests to declare.

Decision on Taking Business in Private

10:01

The Convener: Item 2 is a decision on whether to take item 5 in private. Do members agree to take that item in private?

Members *indicated agreement.*

Employability

10:01

The Convener: The third item on our agenda is evidence from John Swinney, the Cabinet Secretary for Finance, Employment and Sustainable Growth, on improving employability. The cabinet secretary is accompanied by Hugh McAloon and Tom Craig from the Scottish Government. I welcome the cabinet secretary and invite him to make a short opening statement.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): Good morning and thank you for the opportunity to contribute to the committee's discussions on employability, which I welcome. Helping people to find, sustain and progress in work is a key priority of the Government. The goal is closely linked with our purpose of increasing sustainable economic growth and is also a clear social imperative, as we know that good-quality and sustained employment increases an individual's financial independence and their confidence and self-esteem, which has far-reaching benefits for the whole community.

As the committee will know, we have recently launched "Working for Growth: A refresh of The Employability Framework for Scotland". The aim is to ensure that our approaches to helping people into work remain appropriate in a very difficult economic and financial climate. We have promoted closer and better working between Skills Development Scotland and Jobcentre Plus so that people who are unemployed can more easily access the appropriate careers advice and training that is available for them. "Working for Growth" takes a person-centred approach and describes what we are doing to better understand and address the diverse barriers to work that people face.

Those barriers range widely, from issues such as childcare to addictions or a lack of confidence or skills. As entry into the work programme is mandatory for those who are longer-term unemployed, our focus is very much on prevention and on making effective early interventions for a range of clients. The committee has heard from my colleague Angela Constance about the significant investment that we are making to help young people. The committee will also have heard about the recent women's employment summit, which I hope will be a platform for genuine innovation in the months ahead.

Underpinning all those efforts is an emphasis on getting the best possible value from the range of investments that we make. "Working for Growth" describes how we will introduce a procurement

reform bill in the current parliamentary session. Among other things, the bill will set an expectation that community benefit clauses will be considered for all major contracts in the public sector in Scotland. The framework also includes details of a new approach to employability funding. The employability fund will from next year bring together our existing employability investments through SDS and the Scottish Further and Higher Education Funding Council in a new partnership-led commissioning process. The aim will be provision that is better tailored to the needs of people and local labour markets. The fund will deliver 25,500 individual training opportunities in 2013-14, which of course is in addition to the 25,000 modern apprenticeships to which we are committed in each year of this parliamentary session.

Working for growth also means that we must work better with employers. Next month will see the launch of our skills force service, which will be hosted by Skills Development Scotland. That is a new online and contact centre service that is aimed at improving access for employers to information on training, recruitment and workforce development. Over time, I expect the service to be further refined and enhanced. I will also look to local partnerships to further enhance their offer to employers.

As part of our wider economic strategy, the Government is acting to protect jobs and stimulate growth. I highlight that we are also strengthening leadership in support of our goals. Next month, I look forward to chairing the first meeting of the reconstituted Scottish employability forum. To help ensure the profile of employability and that our approaches are properly integrated, the forum will be chaired jointly by Scottish and United Kingdom Government representatives and local government representatives. As such, I believe that it will be well placed to set the national direction for employability in the coming years.

I am happy to answer any questions.

The Convener: Thank you for that opening statement. As is our normal practice, with which you are well versed, I will start with a few questions, then open the session out to members.

During the employability debate in the chamber, the Minister for Youth Employment said, with regard to the employer recruitment incentive:

"In effect, what we have in mind is a wage subsidy scheme that will be targeted at the smallest employers. We will look to subsidise the employment for, say, six months. However, that level of detail is not batted down yet."— [Official Report, 4 October 2012; c 12335.]

Can you provide us with more detail on that initiative? Can you also give us a bit more detail on the funding that is being made available in the

draft 2013 budget to support the Government's various employment initiatives?

John Swinney: It would be fair to say that the employer recruitment incentive is a departure from Government policy. We have not previously been actively involved in what one might call wage subsidy schemes. The rationale for our embarking on that came largely from a view that ministers formed with regard to the current economic circumstances: it is clear in a variety of areas that the prevailing economic conditions make it more difficult for people to commit to particular investments, whether in capital plant, new business development or taking on extra staff, or less likely that they will do so.

As a result, we feel that the Government must move into a place where previously we have not been involved, which is the provision of further assistance to employers to take on staff. The employer recruitment incentive will mean £15 million of public expenditure in 2013-14 being allocated from the Government's direct budget. I would expect that sum of money to be at least matched by European social fund investment. Obviously, there will also be contributions from employers who are paying for staff into the bargain.

Our aspiration is to put together a focused initiative that will enable partnerships at local level to work with local employers to encourage people into employment. That is the thinking behind the employer recruitment incentive, which is focused very much on the needs of individual labour markets and on ensuring in particular that small and medium-sized enterprises, which face the challenge of supporting new employment recruitment, can respond positively.

Your second question was about the different skills programmes that the Government has available. We have a number of interventions. For example, there is the modern apprenticeship programme, which costs approximately £77 million; the get ready for work programme, which costs about £28 million; and the training for work programme, which costs £8.3 million. There is a range of other schemes, including community jobs Scotland, which costs about £6 million. There are also the resources that we have deployed for support for young people, particularly in areas of greatest need, which total about £9 million. There is a range of interventions in addition to the funding that the Government makes available for the higher and further education sectors for educational development.

The Convener: Is the employer recruitment incentive not similar in some respects to the initiative that ended in March 2012? That involved Skills Development Scotland offering businesses

up to £2,000 when recruiting an employee or a modern apprentice.

John Swinney: We are going further in the level of support that we are providing. Under the previous initiative, we provided support that was very much related to the costs that fall on employers—the additional areas of burden that may come, for example, from a sole trader going into new territory by employing somebody else for the very first time. The employer recruitment incentive is designed to provide support directly to individual companies to assist in the salary costs of young people, which is a departure for the Government.

The Convener: We went to Dumfries and Galloway, to Dundee and indeed to Ardrossan, which is in my constituency, to meet some service users; we met people from the public and private sectors who are involved in employability initiatives and people who are delivering those initiatives in the third sector. One thing that we picked up was that there was a bit of frustration about the fact that the programmes are sometimes focused on narrow groups.

For example, during the pilot, community jobs Scotland had a project that was aimed at 18 to 24-year-olds. It is now available to 16 to 19-year-olds and in Ardrossan Michael McMahon and I, along with Jim Johnston and Ross Burnside, were advised by a 21-year-old that he is now too old for that scheme. There is concern about the age criteria for some of those programmes being a bit too inflexible, not to mention concern about the availability of the programmes to older workers in their 40s or 50s. What is your view on that? Given that the pilot was for people up to the age of 24, why did you decide to restrict the programme to those aged 16 to 19?

John Swinney: Part of the thinking has been to address a widely held concern across the country about levels of youth unemployment. It is in the nature of such programmes that a choice will always have to be made between breadth and focus. There is no hard-and-fast rule about how a programme can be best designed given some of those conditions. However, to ensure that programmes can be effectively targeted—that they can be marketed to the individuals who are affected—it is essential that parameters are established to give focus to the offering that has been made in the marketplace.

It is important to remember that a range of different areas of provision exists within the marketplace. We are trying to ensure that we have a sufficient range of interventions that will meet the needs of citizens who are looking for work and meet their expectations of what can be achieved.

The Convener: In round-table discussions and again at the seminars that were held there was quite a concern about evaluation—about what sort of evidence there was, from across the board, on which programmes were working and which were not. How did the Scottish Government evaluate its employment initiatives to inform its decisions on how it would allocate money in that regard in the 2013-14 budget?

John Swinney: The key consideration for the Government is that we look at the outcomes that are achieved by particular programmes. The Government has not undertaken a self-standing independent evaluation of all those programmes to then decide whether to continue funding. I have seen the committee's lines of inquiry in that regard and I will look with great care at what the committee recommends. If there is a sense that we need to consider more external evaluation of those programmes, there is clearly a case for that.

The judgment that we have come to is that we should focus essentially on the outcomes that programmes are achieving on an on-going basis. When those outcomes are acceptable, in the current economic circumstances we will continue to support those programmes. When the outcomes are perhaps not as strong as we would like, we will then revise and restructure those programmes. Of course, there is no certainty that all the changes that are then made to a programme will improve those outcomes, but we can deploy our best thinking to try to do so.

10:15

In the get ready for work programme, for example, the figure for positive destinations with regard to job outcomes is about 24 per cent, with a higher figure—39 per cent—for wider positive outcomes such as going into a job or further training or education. As we consider that to be on the low side, we have drawn get ready for work and training for work activity into the new employability fund, which will bring even closer together the interventions that Skills Development Scotland and the funding council can deploy to ensure that, with the person-centred approach that I referred to in my opening remarks, they are more focused on providing more comprehensive support to individuals.

We evaluate by looking at the outcomes that have been achieved, and if we think that there is a better way to achieve higher outcomes we will follow it. I reiterate, however, that the Government has not undertaken a formal, independent and external evaluation of the programme and I will listen with great care to the committee's comments on the matter.

The Convener: Members have been struck by some of the third sector's excellent work to help those furthest from the jobs market get some of the skills required to get them into that market. However, one issue that has been raised is that annualised funding arrangements make long-term planning difficult and indeed make it difficult to construct training programmes, which, of course, are much more long term in nature. Obviously some people need much more intensive support than others. Do you intend to examine the issue and to consider giving the third sector bodies that are providing this important employability support greater financial security?

John Swinney: As increasing evidence will show, we have tried for some time now to expand the duration of financial support for third sector organisations. For example, by setting out a three-year budget, I am seeking to encourage other organisations to set out their own three-year budgets for deployment to third sector organisations, for which I accept that interruptions in funding can be a real issue.

Secondly, we have introduced particularly tailored third sector initiatives such as community jobs Scotland, which has been deployed exclusively through certain third sector channels and whose progress we are looking at carefully to determine the further support that we can deploy in that area.

Finally, much of the activity around the employability strategy is undertaken through the employability partnerships in each of the 32 local authority areas. Of course, that is not a new approach; essentially, it was the characteristic of the employability support that was put in place in 2006. The Government has given a tremendous amount of encouragement to those partnerships to utilise the third sector's local capacity in order to find solutions that meet individuals' needs and provide some of the flexibility that you mentioned earlier.

The Convener: I open out the session to committee members.

Michael McMahon (Uddingston and Bellshill) (Lab): I think that, in your opening comments, you said that all the individual initiatives depended on growth in the economy; you certainly indicated that growth was important in delivering on many of these areas. However, in the evidence that we have taken, there has been a real emergence of a demand for evidence of and a focus on where public spending is going to ensure that we achieve such growth. For example, Scottish Enterprise identified that, at best, one in 10 small companies has the capacity to grow.

Last week, Professor Kay indicated that we should look to support companies in areas where

there is already growth rather than those in areas where we would wish to see growth. Will you comment on those comments that we have received about the need for a focus on where we can achieve growth?

John Swinney: That point perhaps gets to the heart of the reforms to Scottish Enterprise and Highlands and Islands Enterprise that I put in place in 2007. I agree entirely with Professor Kay that growth will come only from the places where you can get growth. That might seem like a statement of the bleeding obvious, but I think that it is absolutely correct.

As a consequence of the reforms that we undertook in 2007, Scottish Enterprise and Highlands and Islands Enterprise are asked to identify the companies in the Scottish economy that have growth potential and to provide intensive support to those companies to assist their growth. The remainder of the company base is supported by the business gateway and, as those companies' growth plans emerge, some of them might become account-managed companies with growth potential. The grouping of companies with growth potential will never be static, because new entrants will come in as a consequence of new business ideas or business changes. The focus of the enterprise agencies is very much on identifying and supporting the companies that have the capacity to grow.

A key point, which I think that I have made to Parliament before, is that account-managed companies are not just the great big companies of Scotland. Account-managed companies can be two-person companies. For example, a few weeks ago I visited one such company, which is Skoogmusic down in Leith. That company is run by two people who left academia to set up a business down off Leith Walk. They are doing tremendous things and there are just two of them, but their company is account managed. They have a particularly innovative product and they are growing and have the capacity to grow.

I think that the analysis that the committee has heard is correct and it is reinforced by the changes that the Government has made. In all our activities, we try to ensure that the steps that we take are properly connected so that we can maximise the effectiveness of supporting the growth direction of individual companies.

Michael McMahon: The convener mentioned the evidence that we heard in Ardrossan. I recall that some of the companies that gave evidence to us work closely with Scottish Enterprise, business gateway, the local authority and others who are involved in delivering training and taking people forward into employability. However, their experience was that there was too much of a tick-box or head-count process taking place. When we

talked about outcomes, they said that the approach seemed to be "Get as many people as possible through the system so that we can count them and say that we have been successful", rather than a focus on how many people had stayed in employment or gone into full-time employment after they had been through the scheme. Do you take that criticism on board?

John Swinney: Obviously, if you heard that, that was what those companies were expressing. I reassure the committee that the Government does not consider a successful outcome to be getting a number of people on to the programme. I do not want to repeat the statistics that I gave on outcomes for the ready for work and training for work programmes, but 56 per cent of individuals who came through the programmes went on to sustained employment, which is getting on for a better position.

We must remember that some of the individuals whom we are talking about face significant challenges in getting into employment. I accept that we need to take particular steps and offer particularly intensive support to help those who are very far from the labour market. I can certainly assure the committee that I do not just look at the programmes and think, "Well, that's the job done, because we have all the places filled." The job is done only when we can see successful and positive outcomes, such as skill enhancement, sustained employment and sustained learning opportunities pursued by individuals. Those are the measures that we look for in all the programmes that we take forward.

Michael McMahon: My impression, from the evidence that we heard from a range of service providers and companies, is that providers and companies would rather that a smaller number of people were intensively supported than that a greater number of people were supported more generally. You talked about focus; that is what our witnesses want. Companies think that people are being foisted on them who are not prepared or suitable for the type of training that they are providing, because a certain number of people have to be put through the system, which is counterproductive.

John Swinney: I would be concerned if that were the case. I accept that individuals have different needs and issues to overcome if they are to enter the labour market. For some people, to send them to an employer without giving them the required preparatory support would simply be to waste the employer's time.

Some of the programmes that operate provide focused support to individuals, to help them to overcome challenges. There might be timekeeping issues, which we might think are relatively easy to overcome but which can be enormous hurdles for

some people. There might be issues to do with drug or alcohol addiction to overcome or issues to do with access to childcare, which I mentioned. It is all very well to say to someone, "Get yourself to a job," but if there is no one to look after the children it is not worth the effort.

It is important that people are prepared to be ready for work. I will listen with great care to what the committee says in that respect and consider whether more can be done to address the matter as the Government goes about its programmes.

Michael McMahon: Employers and service providers talked about the preparatory work that is done in schools to help young people to understand what training they can and should expect to receive and what service providers will expect of them. There was a little concern that Skills Development Scotland is moving towards information technology and computer-based self-assessment and is disengaging from such preparatory work.

John Swinney: No. That is just a different—and, I contend, more relevant—way of approaching the task. I am not sure whether Skills Development Scotland has briefed the committee on its work on my world of work. It strikes me that my world of work is well positioned in relation to how the cohort of young people in Scotland—of which I am not a part—increasingly acquires information and takes forward plans and aspirations.

That said, the education system identifies young people who require greater and more intensive assistance, as it should do. The Government's schemes and approaches must address that, into the bargain. Of course, curriculum for excellence is designed to try to engage young people and give them the flexibility that is required if they are to be equipped for the challenges of the world of work. The whole curriculum of Scottish education is much more focused on equipping young people for work than it has been in the past.

The Convener: I agree with what Michael McMahon said, but I think that the complaints of companies that we met in Ardrossan—one was a call-centre company and another was a hotel—were more about the people that the Department for Work and Pensions sent them than about Scottish Government programmes. The DWP certainly came in for more criticism.

John Swinney: That programme deals with individuals who have been out of the labour market for more than nine months. In essence, we are supporting the cohort of people who have been out of work for fewer than nine months and we accept that they require additional support if they are to be made ready for employment. In many instances, that will be even more the case

for people who have been unemployed for more than nine months.

10:30

The Convener: I think that there is a real issue about the Scottish and UK Governments working together on that. The DWP, in particular, seems to be more target driven in getting folk to an employer.

Another issue that came up was employers being fed up about getting phone calls from umpteen different organisations that all want to place people with them, rather than from one central place.

John Swinney: I have a number of comments in response to that. I make it clear to the committee that, notwithstanding the rest of the political discourse that goes on, the Scottish and UK Governments have had a number of highly productive interactions on employability. It is an area in which we work well together. The Scottish employability forum will be jointly chaired on a rotating basis by me, the Secretary of State for Scotland and a representative of the Convention of Scottish Local Authorities. That is designed to signal the need for integration and co-operation in that respect. That is a key point in the activity that we undertake.

Jamie Hepburn: I want to pick up on the working for growth initiative, to which you referred in your opening remarks. You said that it takes a "person-centred approach". Will you spell out what that means for people who seek to engage with it?

John Swinney: Essentially, the person-centred approach is designed to deal with some of the ground that I discussed with Mr McMahon, whereby each individual must be properly supported and encouraged to nurture their journey back into employment. For some individuals, that might involve a minor intervention that encourages them to look at particular information about vacancies or to do particular skills training. For others, it might involve a more fundamental assessment of their fitness and ability to commence employment, which requires much more intensive and highly focused support.

The key priority of the person-centred approach is to ensure that, in all circumstances, the individual gets the support that they require to assist them into employment.

Jamie Hepburn: You also suggested that it was recognised that that approach would involve working better with employers. Could you flesh that out a little? What was not working well? In what way will things be better now?

John Swinney: It is in that context that I have some sympathy with the convener's remark that

employers sometimes feel inundated with requests to be involved in some or other scheme or initiative. At a national economic forum meeting that we had across the road at Our Dynamic Earth, I was involved in a sub-group to look at support for employers in getting people into employment. A variety of individuals from public sector organisations set out what they were doing. It was all terribly encouraging—their work was good and comprehensive—until a guy stood up at the back and said, “Listen, I run a small business in Glasgow and I dinnae have time to keep up with you lot.” I can tell the committee that that had a real effect on me. It was a potent reminder that businesses are busy and that people have a lot to do.

Therefore, the approach that we take must be strongly focused on ensuring that if an employer is remotely interested in taking on an extra member of staff, we do not send them from pillar to post to check various websites and programmes; it must be a highly focused approach. It is in that respect that the person-centred approach is designed to help. That will manifest itself in a number of ways, principally in the development of our skills force, which is designed to simplify the way in which employers can find and recruit staff. That initiative will be launched on Friday by the Minister for Youth Employment.

Jamie Hepburn: Are employers engaged with this process?

John Swinney: Very much so.

Jamie Hepburn: I want to ask about a slightly different area that relates to the work of the Welfare Reform Committee, which I am a member of and whose convener is also present this morning. I am sure that Mr McMahon will agree that the committee is gathering a lot of evidence that suggests that the impact of some of the UK Government’s welfare reform agenda is likely to be negative on some of the individuals we are talking about, who are removed from the job market. Indeed, it might also bring into that category some people who do not yet fall into it. How is the Scottish Government focusing its efforts and bearing this issue in mind in its strategies?

John Swinney: In some of my earlier remarks about early intervention, I made it clear that, whether their situation has been prompted by losing their job or their benefits, the earlier we intervene with individuals who are having to look for work, the better. Because we are dealing with people who have been unemployed for less than nine months, we must ensure that our approaches are prompt and focused and meet the individual’s needs. Indeed, a major part of the whole welfare reform agenda has influenced our thinking that we

must focus increasingly on the specific needs of the individual.

Let me try to characterise the shift in activity in our programmes. Essentially, we have moved away from a programme-driven approach to an approach that is much more focused on the individual, and I think that that will stand us in good stead in dealing with the implications of welfare reform. That said, Mr Hepburn will be aware from comments that have been made not only by me but by the First Minister and the Deputy First Minister that it will be impossible for the Scottish Government to protect all of these individuals and indeed all of Scotland from the implications of welfare reform. As the Welfare Reform Committee on which Mr McMahon and Mr Hepburn serve has detected, the consequences of welfare reform are going to have a very significant impact on the Scottish economy.

Jean Urquhart (Highlands and Islands) (Ind):

I am really pleased by your comment that your programmes focus on the individual and that there is an awareness of some of the welfare reforms that are happening.

In recent years, certain small social enterprises have grown up and are now employing hard-to-employ people, including those who had until then been using the health service, care centres and so on instead of getting into the pattern of getting up and going to work. In the region that I represent, some of these enterprises are very small and employ maybe six, 10, 12 or at most 20 people. Have you been able to make any connection or link between the costs that the health service used to incur in this respect and the funding for social enterprises, which are constantly looking to have their contracts renewed? The hardest thing for such bodies is that, as soon as they discover that they are fine for a year, they have to start concentrating on securing the next year’s funding. There needs to be some joined-up thinking in that respect. I suspect that when the enterprises’ funding applications go back to local authorities, the authorities assess them on the basis of the services that they themselves deliver instead of linking them with health service budgets or the implications of not funding or not continuing to fund them. Of course, I realise that long-term funding is always difficult.

I have recently been quite shocked at the DWP and how it helps fairly vulnerable people. It comes back to your comments about it being about the individual. Computer-generated letters arrive just when someone is beginning to have their confidence rebuilt by the kind of support systems that are in place, and they threaten people with withdrawal of their housing or other benefits, and I think that links are beginning to be made there. I

appreciate that you might not be able to do anything about that, but you could be aware of it.

John Swinney: Jean Urquhart's first point gets to the nub of the Government's public sector reform agenda. In response to the Christie commission recommendations, we have opted to take an approach that is founded on a number of key elements, two of which are relevant. The first is about the focus on prevention, and the second is about collaboration and the integration of public services at the local level. I will explore some of those points.

For example, it is in the interests of the whole public sector that an individual who has a mental health problem is properly supported, nurtured and encouraged into employment in which they can have a routine and make a meaningful contribution to society. That is better than that individual not getting support and then getting into difficulties that can mean that they end up in healthcare or, even worse, in prison, which is where many people who have mental health problems end up. I do not wish to sound endlessly like the finance minister, but that costs an awful lot more. The prevention agenda is therefore vital to making sure that we take the right steps to support people and get them to a good outcome, which is why the person-centred approach is important.

The second relevant element relates to co-operation and collaboration at local level. It is just not good enough for public bodies to say that someone is not presenting as, say, a health service problem or a local authority service problem, so they will just not do anything. That means that people fall between two stools and the scenario that I have just outlined prevails and they end up needing more intensive and costly support in a hospital, an institution or, regrettably, in a prison.

Getting the preventative interventions correct is fundamental to what we must do at the local level. To assist that process, particularly in the grouping that Jean Urquhart has talked about, we have invested a huge amount of effort in supporting the development of the social enterprise sector. In 2007, I set out the policy objective of making the social enterprise sector larger and more comprehensive as a consequence of Government intervention and, happily, we are now in that situation. The job is not complete; the sector is still growing and the Government continues to support that with a range of interventions that are targeted at strengthening the capacity of social enterprises through the enterprise growth fund and the just enterprise business support programme. I see a significant role for social enterprises in supporting people who have vulnerabilities. In my experience, social enterprises are more successful than public sector organisations at getting people who are

remote from the labour market into that market. That is why we are trying to improve their capacity.

10:45

To move on to the second point in Ms Urquhart's question, if a person gets a letter in the post with a shocking revelation about their benefit situation or whatever, it can set them back. I have dealt with constituents who were in exactly that circumstance. I make a plea that all our interventions be effectively joined up. If an individual is being supported through one channel but undermined by another, that definitely does not deliver the best for them.

John Mason (Glasgow Shettleston) (SNP): One issue that we have heard little about is skills shortages. Despite the fact that some people cannot get jobs, it seems that there are jobs that are finding it hard to get people. That appears to include jobs in the engineering and North Sea oil sectors. I believe that Scottish Power has many people who will retire soon. Areas such as hospitality are also included. Opportunities in hospitality are not always seen as career opportunities.

Do you have any thoughts about how we can deal with that issue? The schools are involved. Are schools and universities doing enough to point people in the right direction? We asked one of the universities whether they are training too many people in one kind of thing and not enough in others—whether enough engineers are being trained, for example—and it seemed to suggest that it was not its role to decide that and that it would simply reflect what people want to do.

John Swinney: The issue is quite deep-seated and complex, but it must be resolved if we are to avoid the situation in which I all too frequently find myself of having a conversation with employers about the lack of appropriate skills in the labour force. Some sectors of the economy are enduring significant skills shortages. We have a particularly buoyant, productive and expansive oil and gas sector, but there are quite acute skills shortages, which is precisely why I announced the energy skills academy proposal in the budget in September.

The Government's actions to tackle the problem are pretty clear. First, we must encourage a much greater focus in the school system on preparing young people for work and employment. I refer to the point that I made to Mr McMahon. That is one of the purposes of the curriculum for excellence.

Secondly, we have to take action to remedy long-standing problems with our population's interest in science, technology, engineering and mathematics—the STEM subjects. That action is now being deployed within the school system. The

effects will take some time to emerge, but such action is undoubtedly important.

Thirdly, we must improve the dialogue between the business sectors and those who create the skilled population. I fundamentally disagree with the point that a university articulated to the committee that that is nothing to do with it. I completely and utterly disagree with that point of view. The Government has a range of industry leadership groups that cover a whole host of sectors, and we have mandated them to represent industry's skills requirements and demands much more clearly. That system is getting much better. I regularly meet the industry leadership groups, and they met ministers just last week. Unfortunately, I was unable to attend that meeting due to the need to answer a parliamentary question, but the Minister for Youth Employment represented my interests. There has been a sizeable improvement in the dialogue between industry and the institutions on what the skills requirements are.

Those are the steps that we are taking, which are essential to deal with legitimate concern about the availability of skills in the labour force.

John Mason: I accept that schools are not your main area, but do you think that there is a problem because many schoolteachers went back into schools after having been a pupil and a student but without having worked outside the system, so they do not have experience of that to pass on to young people?

John Swinney: I am not sure about that, but I am sure that, for the curriculum for excellence to fulfil its capability, teachers must, whatever their background, be able to represent the climate and direction of the curriculum for excellence to young people in our schools.

I see good examples in the schools of Scotland of people who are doing good work to encourage employers to come into schools. One issue that I am particularly interested in is the encouragement of a greater focus on entrepreneurship in the school population—I see that as an aspiration. I go to events in the Parliament garden lobby that involve social enterprises coming in from various schools and I feel as though I am being put through a sustained sales experience by the youngsters to whom I speak. It is great to see.

Ministers believe that the curriculum for excellence is a great way to create the climate that is essential to ensure that our labour market is influenced by a strong presentation of capable characters when they emerge.

John Mason: The third sector has been mentioned a couple of times. On the whole, there is a good relationship at a high level between the Parliament, the Government, the third sector and social enterprises. However, we have picked up

on the fact that, at a local level, that relationship is more patchy.

One of the successes that you and others have had has been the end of ring fencing, which has meant that councils have more freedom to focus on their priorities. However, there is a feeling in some circles that some councils will use their own regeneration agency or whatever to do the work and the third sector feels that it is excluded. Is anyone comparing the two sectors to see which of them could provide better results?

John Swinney: There is good evidence of the effectiveness of third sector organisations in the delivery of outcomes for individuals in those circumstances. I encourage public authorities to follow that evidence and plan accordingly.

We have tried to ensure that the issue that you raise is dealt with by embedding third sector participation in the work of community planning partnerships at a local level. The type of reform that we have undertaken with the third sector has been designed to create a clear articulation of third sector interests directly into community planning partnerships and to ensure that that is influential in guaranteeing that the third sector is able to play a significant role in the delivery of key programmes at a local level.

I watch this issue carefully because, obviously, I hear much of the same type of commentary that Mr Mason has raised with the committee this morning, and it is something that I discuss with my local government colleagues to ensure that—following on from the point that I made to Jean Urquhart earlier—the collaborative agenda is followed at a local level to ensure that the best organisation to implement the solution is found. That might be a third sector organisation that can straddle the interests of a local authority and the health service at the local level.

John Mason: On the DWP and Jobcentre Plus, I get the impression that there has been a slight improvement in the relationship between Jobcentre Plus and other local public sector organisations. However, do you feel that, if that relationship were more fully devolved, we could make things more joined up in a way that would ensure that the problem that Jean Urquhart raised would be less likely to occur?

John Swinney: You have to consider this on two levels: the level of policy and the level of operation.

At an operational level, we work hard to ensure that everything is as aligned as possible. For example, yesterday, I was at a meeting of the Hall's of Broxburn task force, which is dealing with an acute employment problem in West Lothian. Skills Development Scotland and Jobcentre Plus were represented at the meeting, too. There is a

cohesive model of operation to support the employees who are affected by the closure of that company.

With regard to the policy issues, there will be areas where there is a lack of consistency and in which we could deliver more cohesion and focus if there were one policy approach coming from both Administrations. The argument for further devolved responsibility is clear in that respect.

The Convener: I take a wee bit of issue with the deputy convener. On 9 May, we took evidence from the vice-chancellor of the University of Strathclyde, Jim McDonald, who emphasised that universities are aligning themselves with economic imperatives.

John Mason: I was referring to a different university—that takes out only one.

The Convener: I think that Universities Scotland is aware of and focused on the economic position.

John Swinney: It is essential that there are good and cohesive discussions between industry leadership groups and the further and higher education sectors. That is happening in a large number of areas. My point was that, if that view was articulated to the committee, I disagree with it.

Gavin Brown (Lothian) (Con): What expectations should the committee and the business community have for the our skillsforce website? Is it an upgrade that consolidates existing provision and makes it slightly easier or better for employers to deal with, or is it a genuine one-stop-shop website where everything that any employer would want to know about taking on a new employee can be found? Where will our skillsforce sit between those two positions?

John Swinney: I think that it will be in the latter category.

Gavin Brown: In evidence, a number of businesses have expressed similar sentiments to those of the small business owner from Glasgow, although perhaps not quite as curtly and succinctly as he did.

John Swinney: It was very effectively put. It had a searing effect on me, I can tell the committee.

Gavin Brown: Is it the Government's view that, if we have that business owner before the committee a year after the service has been launched, he will say that there is now a one-stop shop and that it is the only place where people need to look?

John Swinney: I hope that that will be the case.

Gavin Brown: Earlier, you gave a statistic that 56 per cent of people on a programme went on to

sustained employment. I forget the name of the programme, so perhaps you will remind me. Was it the get ready for work programme?

John Swinney: It is training for work.

Gavin Brown: What is the Government's precise definition of "sustained employment"?

John Swinney: It is continuous employment for six months after leaving the programme.

Gavin Brown: Does the Government track or intend to track what happens after nine, 12, 18 or 24 months, particularly with those who were initially furthest from the labour market, so that we know whether people are still in employment, or is six months the cut-off point?

John Swinney: Six months is the only point at which we judge whether we have achieved a satisfactory outcome from the programme. We could try to assess that at other points, but we would then get into territory about the scale and complexity of monitoring individuals' employment patterns. There is a debate to be had on that, but the issue can become complex.

Gavin Brown: I take that on board, but if the committee concluded at the end of our work on improving employability that the situation ought to be tracked for more than six months, would the Government take that seriously?

John Swinney: It goes without saying that I will consider carefully the committee's conclusions in its inquiry. I hope that I am giving the committee a sense that the Government has a range of approaches to the issue. We want to ensure that they are effective and that they have the effect that the Government hopes for. If the committee believes that our approach could be more effective in certain areas, of course I will consider that carefully.

11:00

Gavin Brown: I have one narrow, final question on the wage subsidy scheme that you talked to the convener about. You mentioned that there is £15 million for 2013-14 from the Scottish Government and—this is what I am worried about—you said that you expect £15 million from ESF. I would like some clarity on that. Is that money guaranteed or are you only hoping for it? Where are discussions in relation to that?

John Swinney: The approach has to be cleared through the programme management committees that monitor decision making around European social funds, and the process is under way to secure the necessary resources to support the programme.

Gavin Brown: At this stage, do you have an inkling of when that decision will be made?

John Swinney: It will all be done in good time to enable the programme to be operational in 2013-14.

Gavin Brown: Thank you.

Elaine Murray (Dumfriesshire) (Lab): My question arises from some of the things that other members have said.

When John Mason and I were in Dumfries, speaking to various sectors there, we got the impression that the public sector partners are working quite well together in the employability partnership. However, there is a perception in both the private sector and the third sector that the lines of communication with them are not as good.

The committee heard evidence from members of the private sector who were concerned about the sort of support that they were being offered by the business gateway, and in the local session representatives of the private sector said that they felt that they were not getting the training that would help them. For example, one manager said that some small businesses need management training if they are to expand, as people can enter management positions without the background that helps them to make their businesses more successful. Another example that was given is the lack of training hospitality in an area that is very dependent on tourism, which means that businesses are unable to access training in the hospitality sector.

How does the Scottish Government evaluate the success of the programmes and the employability partnerships? How do you look at the way in which the public sector communicates with the private sector and third sector?

John Swinney: Before I answer that, I would like to make a point about the business gateway. You raise an interesting point about the focus and performance of the business gateway. A small company might require a bit of management training from the business gateway more than an employer recruitment incentive. That is essential feedback, which we understand and will take action on.

I am pretty sure that business gateway organisations around the country will be providing management support and development to SMEs, but if it is not obvious or well communicated we need to know about that. That is material because of the critical point that we are at in the preparation of the business gateway contract and service. The solution to some of the employability issues might exist not in the list of employability initiatives that the Government happens to be running but in the business gateway. Therefore, ministers must ensure that our perspective is broad enough that we take into account those programmes and

approaches, not just the list of employability programmes with a capital E.

We give guidance to local employability partnerships through the employability framework that I have set out, and we are involved in regular dialogue with those partnerships about how they are carrying out their activities. We are listening to the business community on the issues that it is concerned about, including the availability of skills, which Mr Mason referred to, and the availability of information, to which Mr Brown referred. As a consequence, we are changing some of the systems and approaches that we have put in place. That is how we exercise scrutiny in that respect.

Your final point about hospitality training in the south-west of Scotland is a good illustration of Mr Mason's point that we need to ensure that provision in localities is what is required by the local economic base. That is why the dialogue among industry leadership groups, agencies and the employability partnerships is so close. We must ensure that we get that right.

Elaine Murray: Mr Mason and I attended the same local session, so we probably listened to pretty much the same evidence.

I will give you an example. In Dumfries and Galloway, the local employability partnership had an initiative that it believed would help to support businesses as a one-stop shop to which they could go for advice and so on. It sounded pretty good, but when we spoke to the private sector representatives we heard that they perceived it as a threat. That is rather worrying and shows that, in some way, the process of communication is insufficient.

That example probably relates to your experience with the individual who was unimpressed with a number of the initiatives that the public sector was coming forward with. There seems to be a lack of communication between the two sectors.

John Swinney: I would be the first to admit that, in this area, we must ensure that the communication is undertaken properly and effectively. I would also be the first to admit that we can get it wrong. There are lots of things on the go in relation to employability, and when I sit in these discussions I sometimes think to myself, "We've got all this activity under way—why are people telling me that there are skills shortages?" That is the simple question that I ask myself.

In the whole field of education and training outwith the schools sector, we are spending more than £2 billion as a country. For me, the £2 billion question is why, when we are doing all that, I am still having conversations with people who tell me that they cannot get the skills that they require or

that they do not know how to find the information that is required. As I hope that I have told the committee, we are very much focused on trying to resolve the situation because it is just not good enough if people cannot get access to the information that they need or cannot get the skills that they require in the labour market when we are spending more than £2 billion on education and training.

The Convener: Thank you, cabinet secretary. That concludes questions from the committee. I have a number of questions that I would like to ask you, but I do not want to eat into the time of the next session. We have had a very interesting session this morning. I thank you and your officials for your presence and for answering all our questions.

I suspend the meeting until 11:14 to allow members a natural break in which to get ready for the next session.

11:07

Meeting suspended.

11:14

On resuming—

Draft Budget Scrutiny 2013-14

The Convener: Item 4 is oral evidence from stakeholders as part of the committee's scrutiny of the draft budget 2013-14. I welcome to the meeting: Callum Chomczuk—I hope that I am saying that correctly—of Age Scotland; George Hosking of the WAVE Trust; Margaret Lynch from Citizens Advice Scotland; Robin Parker from the National Union of Students Scotland; Ruchir Shah from the Scottish Council for Voluntary Organisations; and Maureen Watson from the Scottish Federation of Housing Associations.

Committee members know how such round-table evidence-taking sessions work, as we have had them on a number of occasions. I will ask someone to start the evidence. On this occasion, it will be Maureen Watson. She will make any comments that she wishes to on the draft budget and what she thinks we should do or not do in it. Then, anyone round the table will be able to contribute. They can comment on what Maureen said or make their own statement. They are completely free to do what they wish.

The order in which questions are asked is simply the order in which I see people. There is no restriction on the number of times that anyone can come in. People can come in once and then come in again later. I ask everybody to hint if possible that they wish to make a supplementary comment if there is a queue.

There is a wee bit of playing it by ear. John Mason is looking a bit apprehensive—I am not going to bite you, John. [*Laughter.*]

We have an hour and a half, so we will try to take evidence in a structured format. We have three main themes. First is on the priorities for the Scottish budget, and we will try to spend about half an hour on that. The second theme is inequalities and the impact of welfare reform. The third issue is preventative spend. I ask everyone to think about those areas.

The first area is priorities for the Scottish budget. Without further ado, I ask Maureen Watson to start us off with her comments. I ask people to let me know if they wish to come in at any time.

Maureen Watson (Scottish Federation of Housing Associations): It is fortuitous that you have asked me to kick off, because I will say that housing should be the cornerstone of Scotland's preventative spending strategy. I am linking the first theme with the third one because, for me and our sector, they are truly linked.

In our written submission, we have cited evidence to show that housing could be at the heart of your preventative spending strategy. It is not only that housing can boost the economy at a critical time; it is needed by everyone, as everybody needs a home.

Housing is particularly relevant to reducing costs in the health budget. If people have a home to which they can return, they do not stay in hospital as long. In fact, they do not need to be kept in hospital because the adaptations budget should allow for adaptations to be made to their home. It should also allow for sufficient wheelchair housing to be available in the communities in which people live. In a week or so, Horizon Housing Association will issue a report on the preventative spending benefits of wheelchair housing and, obviously, make a plea for more funding for such housing.

Although we warmly welcome the fact that there has been a £40 million increase in what we expected to be the budget for housing and regeneration this year and the fact that there is an additional £30 million for energy efficiency measures, that does not go any way towards remedying the cuts that started in 2009. We understand why those cuts had to be made—we understand the environment that we are in; we are not trying to be ostriches with our heads in the sand—but we firmly believe that our sector can provide you with one of the solutions that you need to deliver a true preventative spending agenda.

I will say one last thing about the importance of housing in the Scottish budget. It has never been given as high a priority as it needs to have, given the fact that it is at the centre of everything. We would like much more recognition of that. We are starting to hear that from the new ministerial team, which is great, but we would like it to be reflected in the budget.

I would be happy to answer more detailed questions on that, but I point to the detailed written evidence that we have supplied. We can supply more details.

John Mason: I will press you a little on some of that, Maureen. I totally agree that housing should be a priority, but I ask you to clarify, either now or later, where that money should come from. There has been some movement of funding from revenue to capital; should there be more? The M74 is mentioned in paragraph 52 of the SFHA submission; should there be less spending on transport and more on housing? Should we spend more of the housing budget on adaptations and retrofit and less on new build, or is that not what you are saying?

Maureen Watson: There needs to be a balance, because the sustainable supply of new

housing is very important. In the current climate, less money is available per unit. I underline the importance of the grant for genuinely affordable social housing. Although the Scottish Government's target is for a certain number of social rented houses, we are waiting to see whether the cut in grant per unit over the past couple of years will deliver what we would regard as genuinely affordable social rents. We are still analysing some early data from the Scottish Government; it is only on projected rents, but there are some high rent figures for social rented housing.

I explain for the benefit of the newer members of the committee that housing is expensive to build and to rent or to buy, so there is no getting away from the fact that if you are going to make housing genuinely affordable to people on very low incomes, there must be some sort of subsidy. New supply is very important, and genuinely affordable social rented supply is much needed.

Approximately 335,000 households are on waiting lists in the housing association property sector in Scotland. That underlines the need for that new supply to be provided and for it to be provided in a sustainable and affordable way, but all the other related services are important. As I said, adaptations that allow people to return from hospital sooner, or perhaps create a situation whereby they are not in hospital at all, are important and save money in the health budget, so we would like to see some money from the health budget. Some of the money that is used for crisis intervention would not need to be spent if it was spent in the housing and housing-related budgets to provide housing support, adapted housing, wheelchair housing and so on.

We would also like more money to be spent on tenancy sustainment initiatives. Some of you will be familiar in your own constituencies with the power of the wider role funding programme. It no longer exists as it has been replaced by the people and communities fund, which is open to a wider variety of sources. We have early feedback that a number of housing association co-operatives are still getting applications through, which is great news, but the pot of money is quite small and tenancy sustainment initiatives are being allowed to go through only as part of a bigger project and not in their own right.

I do not think that I need to underline very strongly that given the impending welfare reforms—I know that we will come on to talk about those—there has never been a greater need for more tenancy sustainment initiatives, so that our sector can help people to remain in their homes in what will be very challenging times ahead.

I hope that my response goes some way to answering your questions. I am happy to chip in later on.

Jean Urquhart: I have a small point. What research do you do into the cost of building and the cost of alternative buildings? For a long time we have continued to build pretty much the same thing. There are new initiatives in building standards, standards of insulation, energy efficient homes and so on. Many architects and, perhaps to a lesser extent, builders will say that it is possible to build efficient, well-insulated homes at less than £100,000 or £120,000 a unit. Housing associations never seem to make that argument.

Maureen Watson: The sector prides itself on being extremely innovative and willing to look at anything that might bring a solution to the table. It has led in Scotland on providing energy efficient homes and taking advantage of renewables opportunities, and we will continue to do so.

We get a lot of information from the Scottish Government about the costs of the schemes that are being built, so the figures that we cite come from the Scottish Government. However, a lot of our members are starting to look at, for example, off-site production, which can lead to homes being built more cheaply. We also have to think about the kind of communities that we are trying to build. Do we want a pattern-book approach or do we want to build warm, safe communities with a variety of different house types?

Elaine Murray: I will briefly comment on the point that Jean Urquhart raised. It appears that in other parts of Europe housing can be built considerably more cheaply than it is here. Are there helpful international examples of ways in which savings can be made?

The other question, which is the one I wanted to ask, is this: given your evidence on housing associations' problems in relation to lending and the level of subsidy, is there evidence that housing associations are reaching a point at which they cannot access the funds that are available, because they are not able to build houses that they can let at an affordable rent? Is it just that you want more money for housing—I have sympathy with you in that regard—or would an increase in the level of subsidy do more to enable housing associations to access the available funding?

Maureen Watson: Let me put it this way: if you were to ask whether we would take the amount of money that is currently available if the level of subsidy were more for each social rented unit, we would say yes. Of course we want both to be increased, but we acknowledge the constraints on the Scottish budget.

We cannot deliver genuinely affordable social rented housing at the current rates. Our members'

feedback to us is that we are reaching a point at which the associations that are currently delivering will no longer be able to do so. We hear stories every day of housing associations and co-operatives that are standing back from development until the financial climate changes. The downside of that is that the sector starts to lose skills in areas in which it has a long track record. It would be sad if the sector lost that expertise.

Elaine Murray: Even if there were no ability to access additional funding, would it be appropriate for us to recommend that the level of subsidy be increased?

Maureen Watson: A higher subsidy per unit for social rented housing would be very warmly welcomed.

You asked about international comparisons. We take every opportunity to go on field trips abroad—when we can afford to do so—to consider examples. There are good examples in Germany, and a member of my team is about to go to Copenhagen to look at housing and the use of renewables there. Our sister federation, the National Housing Federation, has a European worker, and we keep in touch with things in that way. There are many good examples out there.

The Convener: I remind everyone that the session is about scrutinising the draft budget and considering whether spending decisions align with the Scottish Government's overarching purpose of increasing sustainable economic growth. We have had a wee discussion on housing. Other witnesses should feel free to say whether they think that the Scottish Government is doing things appropriately and to suggest where alternative spending might go.

Jamie Hepburn: Maureen Watson mentioned preventative spend; we will come on to that. I would be interested to know which housing associations are stepping back from development. In my area, the local housing association has an extensive house building programme.

Maureen Watson: Most organisations are trying to make things work, but they are telling us that what they are doing is not sustainable much beyond the next year or two. We are collecting evidence on exactly the situation you asked about, and we are considering what tests people use to decide whether to continue to develop in the current climate. We will be happy to provide every committee member with the information as soon as we have it, which should be in the next couple of weeks.

Callum Chomczuk (Age Scotland): Further to Maureen Watson's point about adaptations, the budget line for supporting transitions has reduced from £32.2 million to £22.1 million, which is a

significant reduction given that the Government's 2010 report on demand for adaptations concluded that demand is expected to rise from 66,000 in 2008 to 106,000 in 2031. We are cutting the budget at a time when there will be a massive increase in demand for adaptations in homes.

The issue goes to the heart of the Government's ambitions to keep older people living independently and safely at home for as long as possible. Maureen Watson was asked about the tension between building new homes and putting in adaptations, which is a challenge. The average cost of adaptations is about £3,000, so adaptation, where it is possible, is a much more cost-effective way to support people to remain in their homes for as long as possible. It is disappointing that the budget line has been cut at a time when more adaptations will be needed for the elderly population.

Currently, the expectation is that 20 per cent of the cost of adaptation will fall on the home owner—although that varies across housing tenure. Such a contribution can be appropriate, but the difficulty for everyone involved lies in getting home owners to take on the cost. Many feel that it is not their responsibility and that the state should pay for it. Ultimately, they have the right to refuse the adaptation, but the state will pay if they trip or fall and are forced to go into hospital or residential accommodation.

Those are a couple of thoughts on the budget line.

11:30

The Convener: As the deputy convener pointed out earlier when he was speaking to Maureen Watson, it is important to remember that we have a fixed budget. If we are concerned about reductions in expenditure in one area, we need to think about how we would fund it. Maureen Watson commented on where she thought that some funding could come from, and I want to throw the question into the mix.

Gavin Brown: I wish to pose a question—I will look in the convener's direction when I ask it. What does the draft budget for 2013-14 mean for the third sector? What are the positive and the negative parts of it?

The Convener: I will let Ruchir Shah respond to that directly before I bring in Robin Parker.

Ruchir Shah (Scottish Council for Voluntary Organisations): For us, the starting point is to ask what the budget is for. The whole point of the Government's £30 billion budget is that it should provide social and environmental outcomes for people and their communities. That is always the starting point for the third sector.

That is why—as you will have seen from our responses and public statements—we have been quite critical of the overall emphasis on ensuring that the budget contributes to the Government's overall mission for economic growth. We would argue from a third sector perspective, bearing in mind the values that we represent, that it should be the other way round.

For starters, I do not believe in economic recovery, because the type of economic model that has got us into this mess in the first place is not worth recovering. We need to rebuild our economy, but we need to think about why we are doing so and how we can make it more meaningful in terms of the outcomes for people in the communities that we seek to support. That is the mission for third sector organisations.

When you ask us what impact the budget will have on the third sector, you will notice that there is a third sector budget line of approximately £13 million. That particular budget line is very valuable for us as it supports capacity building and provides core funding for some of the infrastructure that supports other organisations. To put that in context, however, the third sector annually manages incoming resources of about £4.5 billion.

We should not get too fixated on the actual allocation to the third sector in the budget. What are important for us are the indirect resources that come through—including those from local authorities, for example, which account for approximately 20 to 25 per cent of the overall resources for the third sector. The overall income that comes into the third sector from public funding in general is around 42 to 45 per cent, so it is worth putting the budget in that context.

Having said that, with regard to the specified allocations—although one cannot specify too much in local authority procurement allocations—we support some of the comments from SFHA, Age Scotland and others about the emphasis on housing, advice and other areas.

We have been saying since last year that the UK welfare reform proposals have, I am afraid to say, blown a hole in the spending review. To some extent there have been attempts—which we recognise and welcome—from the cabinet secretaries to address some elements of the issue. For example, the additional money that has been added for the social fund and crisis loans is very welcome. However, the only way in which we will mitigate those reforms is if the Government takes a different approach to how it spends the budget, rather than thinking about how much it spends.

We tend to focus on how much is spent: how many millions are put here and how many billions are put there. To be honest, the room for

manoeuvre in this type of budget—when we take into account the NHS, the money that is given to local authorities and so on—is quite slight, and so we tend to focus on a few million here and there. For us, however, the important factor is how the money is spent. We would argue that the answer to how the resource should be spent must emphasise preventative approaches and community-based solutions. The interest for us is that the point where prevention and community-based solutions meet is the point where the third sector tends to operate.

Robin Parker (NUS Scotland): First of all, I thank the committee for giving me the opportunity to appear before it.

I want to start by looking at how the budget's priorities reflect the Government's overall priority to boost economic and social good as much as possible. Scotland's biggest natural resource is its people, and we can make the most of that resource by investing in our human capital through education. Another priority that the Government has identified and which the committee has already discussed is youth unemployment. It is worth pointing out both that the students represented by NUS Scotland cover a very wide age range—indeed, one of the advantages of Scotland's education tradition is that it is very much based on lifelong learning—and that unemployment is a more general problem in Scotland.

In the current budget, the Government has, rightly I think, focused on education as a priority means of addressing the kinds of problems that I have outlined. However, although some very good things are happening on the university side of things—for example, the Government is putting extra public money into universities and ensuring that they play their part in tackling the problems that I have outlined—that approach has not been replicated in the college sector. We are concerned about the impact of the budget's proposed £34 million cut to colleges. Colleges play a hugely important role in delivering in certain key skills in Scotland by, for example, providing a huge range of courses and helping to get people into meaningful education that can increase long-term job prospects. I might well return to more general areas of preventative spending when we come to discuss that issue.

In short, although education has been made a priority in the budget, that priority should include universities and colleges. Between the scrutiny of this draft budget and the publication of the final budget we will need to find ways of bridging the £34 million cut; indeed, I can highlight some ways in which that can be done.

The Convener: Go on then.

Robin Parker: In the previous budget process, the Government looked at funding colleges not only directly through the Scottish funding council but in other ways. In the period between the draft budget and the publication of the final budget, a sum of money—the exact figure is in our submission, but I think that it was £17 million—was found and allocated through Skills Development Scotland to deliver a proportion of college places. However, in this year's budget, the Government has simply proposed to move the money from the funding council to Skills Development Scotland, which means that there is no extra money for the colleges to deliver the places. In other words, how the money is channelled has been changed. One option, therefore, is to look at the Skills Development Scotland example and see whether other money in the budget can be channelled to colleges because of what they do.

I also note that, although colleges deliver higher education courses, they receive a lower level of funding than universities receive to do so, and we think that that has an impact not only on local access to education but on the ability of those who are furthest from education to get into higher education courses.

We also think that colleges should receive proper funding for the major transformation programme that they are going through. Money was found to support that transformation work in the previous budget and, given the timescales for the current mergers, perhaps that measure could be repeated.

The other point is that, in previous budgets, the Government has sought to increase the number of college places in one way or another. At a time of unemployment—youth unemployment, in particular—and considering some of the skills needs and the long-term economic outlook for Scotland, that is perhaps another area to think about.

Michael McMahon: The welfare reform impact has already been alluded to by Ruchir Shah. Unfortunately, the Welfare Reform Committee is not scrutinising the budget this year, so this is my opportunity to ensure that some of the issues that have come in front of that committee are looked at.

We have made it absolutely clear that we know that the budget that is being presented here is never going to fill the gap of about £2 billion in the Scottish economy that will be coming down the road due to the welfare reform changes. We know that we are talking about mitigation—firefighting in some instances. We also know that the Scottish Government has a tight budget to work with.

This is a specific question for Margaret Lynch: are we leveraging in other potential sources of income, such as Big Lottery funding, that would be a huge benefit to advice services? I am told that the UK Cabinet Office has made available something like £66 million, which is not in the Scottish budget but some of which could come to the Scottish purse to allow advocacy services and advice services to benefit beyond what has already been allocated to them, in terms of support for the elderly and housing associations.

It also seems that we will have to reorder priorities in those areas rather than try to find more money for them. I am throwing out that idea to get participants' perspectives. The question about the advice funding was a specific question for Margaret Lynch, but how would the other participants like to see money priorities reordered—if that could be done—in order to get some of that mitigation? Currently, we are missing the opportunity to put that in place.

The Convener: I will move on to welfare reform in a minute, so just before I bring in Margaret Lynch I will let John Mason comment, because he was going to respond to what Robin Parker was saying. We can then move on to welfare reform—I will start with Margaret and quote some of her submission, and she can respond to Michael McMahon's question then. Michael is the convener of the Welfare Reform Committee and Jamie Hepburn is a member of it, so welfare reform is very much in our thoughts.

John Mason: I want to press Robin Parker on some of what he was saying. If extra money was found between the interim and the final budget, I am sure that a lot of us would support that money going to colleges. However, on the general mix of things, are you arguing that universities have perhaps received slightly too much and that we could take some of the university money and give it to the colleges or is it more that the whole education budget is not sufficient and we should perhaps pull some money out of health, as we have perhaps hinted at with regard to housing? On the other hand—and this touches on preventative spending—some people would say that by the age of 17 or 18 it is far too late and that we should be taking money out of the colleges and universities budget and putting it into early years. Do you have any thoughts on that?

Robin Parker: It is a matter of matching the priority that the Government has put on education generally and seeing that replicated in colleges. I am not trying to play off different parts of the education system against each other. As I said, one advantage of the Scottish education system is that—whether through having the Scottish credit and qualifications framework or through other things—it is very much a lifelong learning process.

That is going to be increasingly important in retraining and reskilling people at different points in their lives and as Scotland's economy changes.

Inequalities were mentioned earlier. We have found from our own research over the past year or two that universities and colleges have an important role to play, right here and right now, in giving people from disadvantaged backgrounds opportunities. They should be playing a far greater role in giving people from those backgrounds the opportunities that they have perhaps not had.

The Convener: The submission from Citizens Advice Scotland states:

"One of CAS' main points in our response to the Scottish Spending Review 2011 and Draft Budget 2012-13 was that the impact of UK welfare reform changes had not been taken into consideration. We made the point that the Spending Review did not mention the changes which will lead to £2.5 billion being taken out of the Scottish economy over much of ... the spending review. We stated that, at a time when public services and local authority funding was also being reduced, this was short-sighted. This remains our major area of concern."

I ask Margaret Lynch to comment on that to lead us off on this section, and to respond to Michael McMahon's comments. People should let me know whether they wish to contribute.

11:45

Margaret Lynch (Citizens Advice Scotland): I am grateful for the opportunity to appear before the committee. I will confine my remarks to the impact of welfare reform and what can be done in mitigation, and to the funding issue that Michael McMahon raised.

One really troubling thing about the whole discourse on welfare reform is that it is often spoken about as if it is taking place on a distant hill whereas, actually, people in the citizens advice bureaux have been carrying the burden for the past year. In the past year alone, the number of tribunals at which we have represented clients has increased by 62 per cent, and the vast majority of those tribunals have been on welfare. There has been an increase of 61 per cent in the number of people who present with problems relating to employment and support allowance. We have a good track record of delivering for clients when we represent them, with a success rate of nearly 70 per cent, compared with a success rate of 40 per cent for people who go on their own. Last year alone, we spent 1,500 full-time working days advising clients on employment and support allowance-related issues. Form filling for clients is up by 200 per cent.

Our modelling of what is coming down the line between 2013 and 2017, when the full impact of welfare reform will be upon us, has found that roughly 600,000 claims will be adversely affected.

Given that one in three Scots comes to a citizens advice bureau when things go badly for them, a very conservative estimate is that we will have to deal with an additional 200,000 issues every year. Bearing in mind that, last year, we dealt with 190,000 issues, that means that, in effect, we will have to double our service provision in a short space of time, which is difficult for any organisation.

As I am new in post, I have spent the past few months visiting various citizens advice bureaux. I have to tell the committee that I see signs of stress everywhere I go. At present, the bureaux are working at the outer edges of their capacity, in terms of what the premises can contain and volunteer recruitment and retention. Our volunteer advisers are initially supposed to be generalist advisers, but they now provide specialist services.

I turn to mitigation, which I suppose touches on preventative spend. Last year, our client financial gain was £140 million. The citizens advice service in Scotland costs roughly £20 million or £21 million to run. Therefore, the return on investment is that, for every £1 that is spent, £7 comes back. However, that masks a broader figure, because the people whom we help and those for whom we can put money back in their pockets are less likely to present at social or health services for additional support.

I turn to another area in which we provide a service. Under the proposals for universal credit, it will be paid monthly in arrears. Our expectation is that people will present to us who would never previously have dreamed of finding themselves in such a position. When people want to apply to have their universal credit paid fortnightly rather than every four weeks, we will be the people who fill in the forms. We will be the people who represent the under-25s when they have to appeal against cuts in housing benefit and those who lose benefit as a result of the move from disability living allowance to the personal independence payment.

I want to mention one issue on which the budget perhaps misses a trick. Although we welcome the money in the budget to help people through the social fund and in relation to council tax, the budget does not really take account of our impact on the Scottish economy. That is one area in which our work helps. To be perfectly frank, our work and the client financial gain that we can get put money back into the Scottish economy. Usually, that means the local economy, because poor people tend to spend their money closer to home than those who are rich.

In relation to the issue that Michael McMahon raised about funding, in 2011, the UK Government provided an additional £16.8 million to fund advice services in England and Wales in the transition from the old welfare system to the new one. I think

that £1.7 million in Barnett consequentials was given to the Scottish Government each year for three years but, to date, we are still waiting to hear what will happen to that money. On Friday, there was a joint announcement by the Cabinet Office and the Big Lottery Fund of a £65 million support package for vital front-line advice services, because those bodies recognise that one of the best ways of mitigating the impact of welfare reform is to ensure that people claim all that they are entitled to; that they get representation so that unfair decisions are challenged; and that, through client financial gain, money is put back into people's pockets.

As part of that £65 million support package for front-line advice services, the Big Lottery Fund has made available an additional £31.7 million for money advice. In England and Wales, the support package for advice services totals nearly £100 million, but as yet there has been nothing similar in Scotland. That said, we are in discussions with the Scottish Government and its officials. We have presented a proposal to the Government for an additional £2.5 million, £2.3 million of which would go directly to the bureaux. The idea behind that is to increase the number of advice hours that are provided locally. Obviously, the budget process is under way and we will need to wait to find out the outcome, but I must say that I deeply regret the fact that those conversations were not had a year ago. I know of no organisation or business that can plan for and put in place the architecture of support and deliver what is, in effect, a doubling of service provision without any resource input.

That brings me to my final point, which is that co-ordination will be everything. Again, this point relates to mitigation. Disparate conversations are going on in different places. I meet regularly with the DWP. We have a good relationship with the DWP in Scotland, and we work together. We meet separately with Scottish Government officials, who are spread across three different teams, and we also deal with COSLA and our colleagues in the SCVO. Yesterday, I realised that we needed to bring everybody together to plan in a much better way so that any resources that are coming down the line for mitigation are deployed to best effect. We have invited Richard Cornish from the DWP, the Scottish Government's access to justice, third sector and welfare reform teams, COSLA and our colleagues in the SCVO to come to the table so that we can start to consider planning and co-ordination.

To be perfectly honest, we must hear something from the Scottish Government in the not-too-distant future, because otherwise we will not be able to meet the huge rise in demand for advice provision. That demand is not coming down the line; it is here already.

Jamie Hepburn: I have a specific question for Margaret Lynch and a wider one for Maureen Watson, Margaret Lynch and any others who want to comment.

I was interested to hear Margaret Lynch say—rounding the figures for ease—that £7 is gained for her client base for every £1 that is spent on citizens advice bureaux across the country. Has any assessment been made of the likely ratio in future, given that the entire welfare system is changing?

Margaret Lynch: We are currently working with the Fraser of Allander institute to map the impact of citizens advice services on the wider Scottish economy. That information is not currently available, but we hope that it will be soon enough. I think that the report will come out at some point in the next three months. I do not know what is in it yet, as I am not close enough to that work.

Jamie Hepburn: The committee will be able to see that report and assess it.

Margaret Lynch: Absolutely.

Jamie Hepburn: My wider question for you and Maureen Watson relates to the fact that both your submissions refer to the need for greater support for advice services. I take it that both of you—and the others—accept that the welfare reform process has been driven by the Department for Work and Pensions. Do you think that it is incumbent on the DWP to ensure that greater resources are passed down for advice activity?

Margaret Lynch: It is possibly a joint responsibility. You are absolutely right that welfare reform is being visited upon us by a coalition Government of Liberals and Tories based at Westminster, but anyone who thinks that any Government of Scotland cannot act is wrong. We cannot take as a defence, “A big boy done it and ran away.”

The whole motivation behind the setting up of the Scottish Parliament was that, following the 1980s, we wanted a dented-shield approach in the event that any Government of any complexion attacked the social base in Scotland. That is not a political point, as it cuts across politics. In Scotland, we believe that we are a communitarian society, and we expect the poorest, the weakest and the most vulnerable people here to be protected.

If an attack comes from decisions that are made in England and Wales, and a defence is possible in Scotland, we expect it to come from Scotland. We are not arguing that the Scottish Government or any other organisation can replace £2.5 billion; that is absolutely not the case. However, where Barnett consequential have been offered and that money has been made available to the Scottish

Government, it is reasonable to expect that it should translate into additional support for advice provision.

Michael McMahon: I want to widen out that point to cover Age Scotland and the housing associations. Yesterday, as part of its work programme, the Welfare Reform Committee—of which I am the convener—visited the pilot project that is addressing the effects of universal credit coming to Scotland.

I will not go into any of the details, because a lot of what we were told was commercially confidential as part of the project. However, one of the most significant things that struck me was the amount of support that the housing association involved is having to give to people who are finding that their circumstances are changing purely because of changes in criteria due to the reforms that are coming through. People who currently get benefits will no longer get the same level of benefits, and people will find themselves in difficulty because the money will go directly into their bank account, which means that they will incur charges. All sorts of things will arise, purely because of those changes and nothing else.

The cost of running the project is a huge burden on that housing association. Funding will be sustained while the project is a pilot—the cost incurred by the housing association to run it will be met. However, when the situation becomes the norm and every housing association and social landlord has to implement those changes, the funding will go, and everyone will have to meet the costs from their existing resources.

Given that we will have to multiply the amount of money that that organisation has had to find to run the pilot project, I wonder whether any of the resource implications have been taken into account in the planning that has been done. We have talked about what will happen to Citizens Advice Scotland, Money Advice Scotland and so on, and about aids and adaptations and the support that will be required, but has any of that been factored in?

The figure will be astronomical, and the changes that are being brought forward will, when they actually begin to be implemented, create carnage in terms of their implications for housing associations, social landlords and councils, and for the services that they provide. The impact on social services will be astronomical, but I have not yet seen any evidence that that has been factored into the equation in the budget.

12:00

The Convener: Do you want Margaret Lynch or Maureen Watson to respond to that?

Michael McMahon: Margaret Lynch gave us a perspective on the people who will be affected and where they will look for support. The organisation that I was talking about has a dedicated citizens advice worker, who is working closely with affected people, but we are talking about someone working with one project in Edinburgh. What support will be available Scotland-wide?

Elderly people and kinship carers will be penalised through the bedroom tax. Has Age Scotland factored that in? Have you conducted any analysis? Based on what we heard yesterday, has the SFHA—

The Convener: You directed questions at Callum Chomczuk, so I will bring him in before I bring in other witnesses.

Callum Chomczuk: The short answer is no, but the evidence from the pilot that Michael McMahon mentioned is telling. We run our own helpline, and during the past year we have doubled the floor space and capacity for that. We increasingly find that younger people are phoning us. You might expect an older people's helpline to be used by people who are 75 and 80, but a younger constituency is phoning us, because fear about welfare reform is becoming more and more pronounced.

We have talked about how to mitigate the impact of welfare reform; the cuts to the local authority budget could exacerbate it. Citizens advice bureaux give advice, but local authorities also provide individuals with a lot of benefit uptake advice and support, partly to help in the recovery of money through care charging. Cuts to the local authority budget will potentially have an impact on the incomes of many older people and disabled people throughout Scotland.

I know that I am not offering a solution on where money will come from. However, there is an issue: as the local authority budget is squeezed, front-line advice will also be squeezed and the impact on individuals and the local economy will be all the greater.

Maureen Watson: We are extremely concerned about the impact on demand for advice services. Communication from the DWP about the whole agenda has been extremely poor, if not appalling. During the passage of the Welfare Reform Bill—during the lobbying phase—we found it hard to get anyone but the most willing of the DWP officials to come up and talk to us about what was coming down the line. Now the Welfare Reform Act 2012 is in place and we are in what we call internally our damage limitation phase, which involves assessing the impact and trying to provide the tools that our members need to cope with it.

We are dealing only with the tip of the iceberg. My chief executive, Dr Mary Taylor, spoke to this

committee earlier this year about the work that we have done to measure the impact of welfare reform. You probably remember the big figure that she quoted—£220 million—which was an estimate from a company that we commissioned. The figure is a guesstimate, but it is the nearest that we can get to the figure for what will be taken out of the household incomes of tenants in our sector as a result of the housing benefit changes that will come in in April 2013 and the rolling out of universal credit up to 2017.

That is a huge amount of money and it represents a huge number of confused and potentially confused people out there. There is a long tradition in our sector of tenants coming to housing officers for advice and help with filling out housing benefit forms, but housing benefit is going to be rolled up into universal credit. In April, the bedroom tax will come in and we think that the benefit cap will affect around 1,800 tenants in our sector. That is a small number of people, but we are talking about a big, big sum of money for individual households. Some of the figures are in the evidence that we provided to the committee earlier this year in the context of your questions to my chief executive. We can reissue our submission if you do not still have it—but I hope that it is stashed safely.

We are trying to refresh the survey that we did earlier this year on the preparedness of everyone in our sector for what is coming down the line, which includes the preparedness of housing staff to provide advice services. We will limit that to things that relate to housing, because we cannot do, and would not want to replicate, what Margaret Lynch does. We should be joined up—we would be willing to come into what you are setting up, Margaret. The survey will be refreshed before Christmas and we will have some numbers to bring to the table that we will happily share with the committee.

The Convener: That would be useful.

Margaret Lynch: What is needed is co-ordination. In response to Michael McMahon's question, I say that, to the best of my knowledge, a full and proper impact assessment of welfare reform has not been done. Only a fragmented picture is available to us.

I chaired the Capita conference on welfare reform earlier this week. That event was interesting because it gave a helicopter view of the issues. As a result of the discussions at that conference, I decided that we must have a high-level co-ordination group.

Local authorities need to set up their own welfare reform planning groups. It is not just that the transaction costs of housing payments will increase—a direct payment did not previously cost

the council anything, but there is a cost to the council in taking that money out of people's bank accounts—but that the collection of payments from people who fall behind with their rent will cost additional money. There is also the issue of rising homelessness and how councils cope with that, and there will be increased pressure on social work departments and on social care as kinship care arrangements break down. With £1 billion being taken out of the hands of people who are sick and disabled, who will pay for the care costs that are paid for through that avenue?

We are reshaping our model of advice provision, which looks at the CAB as more of a local community hub, so that we not only give people advice and information, but refer people who are, to be frank, destitute to other organisations and sources of support, whether for a food parcel, emergency accommodation or a starter pack, if they are not getting money through social fund payments.

As organisations, we need to be in the business not only of advocacy, but of service delivery. That does not happen by sitting around the table and talking about things. You need to have proper planning mechanisms in place, and the architecture of the services that are to be delivered needs to change for all of us. We need to talk to one another about what is happening on the ground. The citizens advice service is uniquely placed to report the real-time impact of welfare reform as clients walk through the door. That information can be given to local authorities and the Scottish Government and then, at the co-ordination level, a context-related response to welfare reform can be delivered.

The reality is that we can probably guess what is coming down the line, but we will not know until it happens. Three human beings who face the same situation will react to that situation in three different ways. We can do as much modelling as we want, predict an awful lot, share as much information as we can and put service changes in place to try to cope but, until welfare reform happens, we do not know how it will impact on people. When it happens, the information that we provide to local authorities, COSLA and the Government about how the changes are impacting on people on the ground will be critical to mitigation and recovery.

Elaine Murray: On co-ordination, I am certainly aware that there are three organisations locally, including the local authority, that provide benefits advice. There are also specialist organisations, such as Age Scotland and carers organisations. Consequently, a person who wants information on housing, for example, may end up going around several organisations seeking the same information.

Is there a role for local and national Government—including through funding—to assist with co-ordination so that there is somewhere central that signposts people to the organisation best able to help? That could mitigate some of the pressures on advice organisations and also be an effective use of funding. I do not know whether this makes you feel any better, but I have certainly found that the numbers of people who are coming to me for employment and welfare-related advice have gone up a lot, too. I am sure that that is just a reflection of what is happening elsewhere.

The Convener: I will let Margaret Lynch respond to that before I bring in others.

Margaret Lynch: Local co-ordination is really important, and probably the best vehicle for that is the local community planning partnerships.

Let me just give an example of where things are not working too well, which, I hate to say, comes from Michael McMahon's patch. We were absolutely delighted when North Lanarkshire Council announced that it would deliver an additional £750,000 for advice provision to cope with welfare reform. When we looked to see where the money was going, we saw that it was all being retained within the local authority, in effect to redeploy housing officers. That is absolutely fine, but I think that there should have been a conversation between North Lanarkshire Council and the citizens advice service on how those people might be best deployed.

Consultant's report after consultant's report say that when people are in housing arrears, they are reluctant to get benefits advice from the organisation to which they owe money. Also, because our advice provision is delivered through a network of 3,000 volunteers, we can see more people for every pound that is spent. We would have liked consideration of whether those people could have been redeployed through the citizens advice service, because that would result in a larger number of people in North Lanarkshire getting access to advice. Such conversations are happening in some places but not in others. Anything that the Scottish Government or COSLA can do to encourage the community planning partnerships to be the vehicle whereby local co-ordination can happen is really important.

In the funding submission that we made to the Scottish Government, we have asked for, I think, about £200,000 to train people in other agencies—for example, housing officers, people who work for disability organisations or people who work for housing associations—to deliver first-tier welfare benefits advice, to spread the load. The idea is to have a triangular model: people are enabled to self-help where they can; those who cannot self-help are helped to complete the journey themselves—perhaps with a bit of assistance from

us over the phone; and the people who eventually get face-to-face advice are those who are very vulnerable or have complex needs.

Jamie Hepburn: As a representative of a North Lanarkshire constituency—mine may be a more reluctant enclave of North Lanarkshire than the area that Michael McMahon represents—I was interested to hear that evidence.

I want to ask about a slightly different issue to do with the underoccupancy penalty for housing support, which is the so-called bedroom tax that both Michael McMahon and Maureen Watson have referred to. Indeed, this question is specifically for Maureen Watson. The evidence tends to lead us to the conclusion that we will need significantly more one-bedroom properties in the social rented sector, although that seems entirely counterintuitive given the flexibility that two-bedroom and three-bedroom properties afford the sector. Can you comment on that? Through the budget process, will the sector be geared up to deal with that issue?

Maureen Watson: We will need to build smaller properties.

Jamie Hepburn: Indeed.

Maureen Watson: As I have said previously to the Infrastructure and Capital Investment Committee—Dr Mary Taylor may have given the same stat to this committee—by our reckoning around 62 per cent of tenants in the social rented sector need a one-bedroom property, but only 34 per cent have a one-bedroom property at this point in time. That statistic is about a year old, but that is the nearest that we can come up with. Part of the sector's preparedness efforts is to profile its tenants to find out who is living in the properties. Although we know who moves into a house when it is first allocated, we do not necessarily know how the household has developed unless we have had to help them with housing benefit.

The Convener: Sorry, what does that gap between 62 per cent and 34 per cent represent in terms of the number of households?

Maureen Watson: I do not have that information to hand, but I can get it to you.

The Convener: Obviously, tens of thousands will be affected.

Maureen Watson: It is a big problem, because the stock is not there for the people who will suffer from paying the bedroom tax. We have been saying that from the beginning. We could build more one-bedroom properties, providing that the subsidy level was right, but why? We are in the 21st century, so why should people be forced to have just one bedroom? Why can they not have somewhere for the children to study? That links in with people being prepared for further and higher

education. Why should the Government not take account of the fact that needs move on? Couples do not always need just one bedroom. Many of them will have families, so they will need two-bedroom houses.

12:15

The Convener: I know that Jamie Hepburn is keen to come in, but other people want to speak and we must watch the time. I want to move on to preventative spend.

Ruchir Shah will be next. He wishes to talk about welfare reform, but I also remind him that the SCVO submission says:

"Although the change funds were a welcome contribution towards preventative spending, we have concerns that this money is not being sufficiently spent on community-based prevention."

He should feel free to speak on that and on welfare reform.

Ruchir Shah: That was helpful, convener, because my comments will bridge our discussions on welfare reform and prevention. I will also touch on the change funds.

My starting point is to respond to what Michael McMahon said on what the budget can do on mitigation. The reality is hitting home—especially with the Chancellor of the Exchequer's recommitment to a further £10 billion in cuts to the welfare budget in the current cycle—that there will not be enough money in the public purse to mitigate the kind of demand that we expect, regardless of all the uncertainties that we still have not bottomed out.

To me, the budget will be less now about mitigation—full stop—and more about adaptation. There will be some quite hard times ahead. If we accept that we will not address welfare cuts through public budgets alone, we need to think about where the resources will come from. I think that that is what Michael McMahon's question was alluding to.

There is some interesting thinking in our sector about how we can build on the assets—whether human, social, environmental or land assets—that already exist in communities. There are some interesting developments on community energy and renewables, for example, which can help to regenerate communities. There are also, increasingly, examples of urban approaches to regeneration on which we can build, even within Michael McMahon's patch and the wider west of Scotland area. It is within the Scottish Government's remit to support and nurture those examples within our communities.

We have also not talked about the role that credit unions and co-operatives could play in

tackling some of the financial exclusion issues that are bound to skyrocket over the next few months.

In our submission to the committee, we have made a proposition about a community programme—a much bigger initiative—to tackle unemployment, which is critical to any attempt to address welfare reform and welfare cuts. We have hundreds of organisations standing ready to take on more people. There is demand for the services but, of course, we need to think about where we will get the resources from.

That bridges over to prevention. My broad message is that we need to shift our thinking a bit. Rather than thinking about what bits of additional funding we can draw from here or there within the Scottish Government's overall budget, we must ask how we can realign the whole Scottish Government budget allocation so that it is designed to help Scotland to adapt and to support communities through austerity and the welfare cuts.

The SCVO believes that the third sector can play a critical role in prevention, but we do not believe in prevention just for the sake of saving money, although that is understandably the starting point for many officials. For us, the point of prevention is that it focuses on the outcomes that we want for people. That is where our emphasis on community-based approaches to prevention comes in.

Many organisations and projects in our sector get no public funding at all. A good example that won the charity of the year award a couple of years ago is the Serenity cafe, which is a dry cafe for people who are recovering from alcohol abuse. It had no incoming resources from government at local or national level. All that it wanted was a realignment of the way in which the public sector was operating so that it could do its job well without any barriers.

There is work that we can do on how we take forward the Scottish Government's budget. As I mentioned earlier, it is not about how much is in the budget, but how it is used. We need to look at how we ensure that there are conditions and stipulations on how the money is used, particularly when it is given to quangos and external organisations.

We need to think about how we can combine portfolios in more creative ways. Why should we not put reoffending budgets together with employability budgets, for example? If we do that, people will start to make connections between portfolios. Why should we not put together energy and regeneration, or community transport and health? There are huge synergies if we are more creative about how we combine portfolios.

Those are my general suggestions, but I will pick up on the specific question about the change fund. From the joint improvement team's findings and its analysis of how the change fund money had been spent, we saw a very mixed picture. We felt that the allocations for what we would call downstream prevention, which is much closer to the type of community-based solutions that we are talking about, had a short-term preventative edge. Rather than just using money to fill in existing holes in current budgets, we need a much longer-term focus on prevention, which was missing from a lot of the change fund plans and allocations. The Improvement Service gave figures, but it is best that I do not try to repeat them because I cannot remember them exactly. It noted that somewhere in the region of 20 per cent to 24 per cent was spent on the type of prevention that we would like to see, which is much more about community-based prevention. That is where we are coming from in our submission to the committee.

The Convener: Thank you. George Hosking of the WAVE Trust sent us a very interesting submission that included the sentence:

"We are currently cautiously optimistic about the prospects for leadership and its influence on local areas."

There does not seem to be a lot of optimism this morning, so please feel free to contribute to the discussion in any way you see fit.

George Hosking (WAVE Trust): Thank you, convener. I will address the issues of inequality and preventative spending, and link them to each other. Research from the universities of Mannheim, Oxford and Cambridge has shown that differences in the prospects of children are identifiable at three months of age, and become wider as time passes from three months to 11 years and beyond.

Professor James Heckman, who I think is well known in Scotland, has undertaken a study of what drives inequality. He says that it is not poverty that drives inequality, but lack of skills. He draws attention in particular to what he calls the soft skills, which are not things like reading, writing and arithmetic, but skills such as motivation, perseverance, the ability to work with other people in a co-operative manner and emotional self-regulation.

Those soft skills are learned in the home from interaction with the family before children ever go to preschool or kindergarten, and they are heavily influenced by the quality of early parenting. Therefore, if we wish to reduce inequality in Scotland in the long term, the evidence very strongly shows that the way to do that is to improve significantly the quality of the very early life experience that children who are born into the more challenged families receive.

That takes me to early years preventative spending. I was at a meeting of the previous Finance Committee, when it had a slightly different membership—

The Convener: It had extremely different membership.

George Hosking: Yes. At that meeting, Tom McCabe summed up nine months of taking evidence on the value of preventative spending on the early years by saying that the committee had seen evidence stacked from the floor to the sky that showed that it was the right thing for the Scottish Government to do. I am delighted that, since then, the Scottish Government has picked up that baton.

The first thing that I would like to say on the draft budget is extremely positive. The budget is very good and very strong in its repeated commitment to early years preventative spending. We find that commitment in the strategic context, where the Government talks about

“Investing in the activities we know will reduce future demand on public services and improve outcomes”,

and about “Embedding a preventative approach” via community planning partnerships. We find it in the health and wellbeing chapter, where the Government says that it will

“prioritise ... preventative spend e.g. support for parenting and early years”,

talks about the £39 million early years change fund to support

“the most fundamental and effective form of early intervention to address poor health”,

and commits to establishing an early years collaborative, which is an important step.

The commitment is also stated in the education and lifelong learning chapter, in which the Government says:

“This focus on the early years preventative spend will provide a strong base for all our children ... to develop, learn and achieve their potential.”

The Government says that it

“will continue to prioritise investment in the first years of life—where we will have the biggest impact”,

and—still in the education and lifelong learning portfolio—it talks about setting up a new £20 million fund to be split between early years and early intervention. The Government also says that it will build on its national parenting strategy, and there are references to the importance of preventative spending in the early years in the justice, infrastructure and local government chapters, too.

I am delighted. I work across the United Kingdom, but I am a Scot and I am proud that

Scotland leads the United Kingdom in its commitment to preventative spending, especially in the early years. That is wonderful and it is something that we should carry forward in a really effective way, because we can be trailblazers. Indeed, Harry Burns tells me that not only the rest of the United Kingdom but many parts of Europe are looking to see what Scotland is doing in this respect.

However, I have a concern, which is that we do not realise the scale of investment that is needed if the approach is to be effective. Let us take the £39 million in the early years change fund in the draft budget, and let us say that £11 million out of the £20 million education fund will go towards the early years. We are talking about putting roughly £50 million into moving the agenda forward. That is a third of 1 per cent of the joint health and education budgets.

For the past nine months, I have co-chaired a study with a senior civil servant in the Department for Education in London, working jointly with the Department of Health to devise a detailed blueprint for how to put early years intervention policies in place for children from conception to age 2. As a result of the conclusions that we reached about how to do that in practice, I started working with the Big Lottery Fund on examining the value of promoting early years preventative spending. I am delighted to say that one outcome of that work is that the Big Lottery Fund has decided to put £165 million behind major pilot studies in England on putting into practice a blueprint of the type that I am describing.

If we compare what the Big Lottery is putting in with what Scotland is putting in, we can see that what Scotland will spend in its early years funds will be roughly equivalent to what the Big Lottery will give to a city such as Bradford. I wonder whether we really understand the scale on which it is necessary to act if we are to produce change that makes a significant difference.

The response to requests for more money—whoever makes the request—is, “Where will the money come from?” I will propose an answer, first, by referring to points that Professor John Kay made in evidence to the committee last week. He said that preventative spending involves

“spending more money now so that we spend quite a lot less in future.”

He said that we could

“make the Scottish population a lot healthier if we spent more on things that would make them healthier and less on treating them when they get ill.”

He pointed out that the main items on which the Scottish Government spends its money are health and education, and—crucially—he said that

“In the first seven to 10 years of devolution”,

there was

“a substantial increase in ... expenditure on health and education services without any commensurate improvement in outcomes.”—[*Official Report, Finance Committee*, 24 October 2012; c 1717, 1716, 1720-1.]

That does not surprise me.

I was closely involved in the Croydon total place study, which was carried out under the previous Labour Government. The project evaluated all moneys that were spent on early years by any Government agency, including HM Revenue and Customs as well as social justice, criminal justice and any other area of spending. The project put the entire budget together, examined how effective it was and came to the conclusion that a great deal of the spending on health, education and social services was not effective.

The report stated that it was hard to establish a link between investment and outcomes and recommended a redesign of spending based on creating solutions rather than on delivering services. The biggest criticism of the council's own operations was about the way in which those focused on delivering services and not on changing outcomes. The project calculated a return of £10 for every £1 that could be spent on early years preventative spending by making a change, with the biggest gains coming from doing things differently. The project also found that there was a need to stop some services and to reduce the costs of others.

12:30

Therefore, it is possible to do a great deal more. If, in Scotland, we spent on the early years change fund at the level at which the Big Lottery Fund is putting money into England, on a population-equivalent basis for the whole of Scotland, we would be looking at about 3 per cent of the total education and health budget, including education and social work budgets in local authorities. That does not seem to me to be too much to spend, but even if it is too much—I do not recommend doing it in one go—one could spend significantly more than the present sum and run a number of pilots that show a true commitment to early years preventative spend. That is what the Big Lottery Fund is going to do in England.

I am sure that it will not be lost on committee members that we could ask whether the Big Lottery Fund in Scotland might make a similar grant to support work here, as its partners are doing in England. That would move forward early years preventative spending, with the benefits of reducing inequality and improving education and health in Scotland.

The Convener: Thank you very much for that comprehensive contribution.

We have about 10 minutes left, so if anybody has further comments to make, now is your opportunity to catch my eye.

Jamie Hepburn: I have a question for Maureen Watson that goes back to the evidence that she gave earlier. It is good that the SFHA is thinking about preventative spend. She suggested that money could be saved from the health budget by spending on refitting houses. I understand the theory, but has there been any attempt to quantify that? It is all well and good to say that, in theory, we could save money, but what are we talking about?

Maureen Watson: We have not done what you describe, but that gives us an idea for a future project.

Jamie Hepburn: I am glad to help.

Maureen Watson: There is an extensive and growing body of evidence about the social return on investment from things such as adaptation, very sheltered housing, housing support and community regeneration—all of which, we argue, help to save money in the health budget. We are happy to bring reports to the committee as and when they are published. The next one to come is the Horizon Housing Association report that I spoke about earlier. I also mentioned the Bield, Hanover and Trust housing associations' report. Some committee members were at a parliamentary reception a few weeks ago at which Cunninghame Housing Association launched its report on the preventative spending power of community regeneration initiatives. There is a growing body of evidence on that, but there is nothing that quantifies the effect across the board.

Callum Chomczuk: I want to build on the points that George Hosking and Ruchir Shah made about the change funds and preventative spending. We all absolutely welcome the Government's approach. The three change funds are welcome, although I will speak mostly about the health and social care one. Although the pot for the fund is £80 million this year and next year and everyone will want that to increase, our concern is about how we use the money and on what projects it is being spent. Our written evidence mentions a freedom of information request that we submitted relating to the partnerships, which provided details on a lot of spend on projects that do not deliver front-line differences for older people.

We have four years of the change funds, but we need to consider how to get the biggest bang for the buck. That is not so much about looking at budget lines and more about strengthening conditionality and ensuring that the money goes to the partnerships and that they spend it

appropriately. From this year, 20 per cent of the money is supposed to be allocated to carers. Parliament supported that approach, but there is no real evidence to show that 20 per cent of the change fund money is going to carers.

Although we obviously want more money for the change fund, we need to strengthen conditionality. We must ensure that, where we have evidence on what works—whether in relation to adaptations or community-based assets that deliver on the ground—the representatives of that in the partnerships are strengthened and supported so that their voice is heard and they get a bigger share of the change fund money. We must ensure that the NHS and local authorities do not, as perhaps understandably they might, take some of the money to fill gaps in their budgets that have arisen because of the cuts in recent years.

A final point that I want to stress on the change fund is that, for many older people, the lack of accessible transport is the tipping point that pushes them into residential accommodation or hospital. However, there is no real sustained investment in community transport. As that is coupled with the reduction in the bus service operators grant, on which community transport operators can draw, we find that more and more community transport operators are struggling to get older people out and about and keep them independent.

The Convener: Maureen Watson wants to come back in but, unfortunately, we are pressed for time, so I will just take Robin Parker and Michael McMahon, who had indicated previously that they wanted to speak. They will be the final contributors.

Robin Parker: George Hosking made an incredibly strong case for giving every Scottish child the right start in life, so I will not repeat any of that. I want to talk about the further steps that universities and colleges could take on preventative spending. I will start by going back to the point about inequalities. About 26 per cent of students who enter college come from the most deprived backgrounds, by which I mean the 20 per cent most deprived areas in the Scottish index of multiple deprivation, and the figure is even higher if we consider only further education provision in colleges. However, for universities, 12 per cent of entrants come from the most deprived backgrounds and, for some of our most elitist institutions, the figure is even worse.

We need to ensure that access to education at higher and further levels becomes much fairer. Our take on that is not that universities can somehow do that on their own, but that they could do very much more. Those who show an incredible amount of potential and who do well in low-performing schools where most people tend

not to go on to university should be given many more chances in universities. We think that not having tuition fees in Scotland and the continued protection of that through the spending review period, along with the increases to financial support for higher education and the continuation of the education maintenance allowance are the crucial building blocks for making access to education fairer. It is time for the money that is rightly going to universities to be used to leverage more activity and action from them to make access to higher education fairer.

On preventative spending, there is strong evidence that the further we allow people to go with their education and the higher the education qualifications they have, the better their life chances are in every sense. They are likely to be healthier and less likely to go on to commit crime. There are many side benefits, apart from the things that we have talked about to do with the economic impact and people being more likely to be in work and earning more.

I have a small final point to make. If the mood in this room is anything to go by, we are now pretty much over the Olympic bounce. There is not an optimistic outlook, and rightly so. Through education at every level, huge numbers of people are introduced to new forms of sport. That is a kind of microcosm of what happens when we give people the opportunity to be in education rather than on the dole queue. My final point is that, if people are not given high-quality places in colleges with appropriate funding, it is almost inevitable that the next place that they will go is the job queue. That is why we are so worried about the £34 million cut in college funding.

The Convener: Michael McMahon will have the final word.

Michael McMahon: I totally agree with George Hosking. We have been discussing the preventative spend agenda for a long time in Parliament, but experience has taught me that when people talk about it theoretically in the way that he did, all the politicians will sign up to it. We have had things such as the Kerr report, when we talked about the blueprint for moving from acute services to primary care services, with more emphasis on preventative spend, and we have had similar things in relation to education funding and all the rest of it. Everyone signs up to that in principle, but what people actually mean is that they want what they currently have plus all the preventative spend. They do not want the budgets to be skewed from one to the other. That is why, when it comes to implementing such changes practically, we get placards outside the local hospital saying, "Defend our services," even though we are actually transferring funding from

an acute service to a primary care service so that people will benefit in the longer term.

I just want to throw in that point, which I have made previously. The committee could serve a useful purpose if, when we have agreement on such matters, we encourage people to follow that through and not take the dog-whistle attitude that comes when we try to implement the changes that everyone agrees should happen.

The Convener: I regret that time is against us. I thank everyone for coming and for their useful and informed contributions.

12:41

Meeting continued in private until 13:05.

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