



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 13 March 2013

Session 4

© Parliamentary copyright. Scottish Parliamentary Corporate Body

Information on the Scottish Parliament's copyright policy can be found on the website - www.scottish.parliament.uk or by contacting Public Information on 0131 348 5000

Wednesday 13 March 2013

CONTENTS

	Col.
SUBORDINATE LEGISLATION	2389
Budget (Scotland) Act 2012 Amendment Order 2013 [Draft].....	2389
EMPLOYABILITY	2407
DEMOGRAPHIC CHANGE AND AGEING POPULATION INQUIRY	2420

FINANCE COMMITTEE
9th Meeting 2013, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)
*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)
*Michael McMahon (Uddingston and Bellshill) (Lab)
*Jean Urquhart (Highlands and Islands) (Ind)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Ron Culley (Convention of Scottish Local Authorities)
Councillor Peter Johnston (Convention of Scottish Local Authorities)
Councillor Kevin Keenan (Convention of Scottish Local Authorities)
John Swinney (Cabinet Secretary for Finance, Employment and Sustainable Growth)
Andy Witty (Convention of Scottish Local Authorities)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 3

Scottish Parliament

Finance Committee

Wednesday 13 March 2013

[The Convener *opened the meeting at 09:30*]

Subordinate Legislation

Budget (Scotland) Act 2012 Amendment Order 2013 [Draft]

The Convener (Kenneth Gibson): Good morning and welcome to the ninth meeting of the Finance Committee in 2013. I ask everyone present to turn off mobile phones, tablets and other electronic devices.

Agenda item 1 is to take evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth on the Budget (Scotland) Act 2012 Amendment Order 2013. The draft order is subject to affirmative procedure, which means that the Parliament must approve the order before it can be made and come into force. We have before us a motion in the name of the cabinet secretary that invites the committee to recommend to the Parliament that the draft instrument be approved.

Before we come to the debate on the motion under item 2, we will hold an evidence session to clarify any technical matters and to allow the explanation of any detail. The cabinet secretary is accompanied by Janet Egdell and Terry Holmes from the Scottish Government finance directorate. Good morning, all. I invite the cabinet secretary to make an opening statement.

The Cabinet Secretary for Finance, Employment and Sustainable Growth (John Swinney): Thank you, convener.

The spring budget revision provides the last opportunity to amend the Scottish budget for 2012-13, and it deals with four different types of amendments to the budget. The first involves changes of substance, whereby we propose to increase the money devoted to particular areas of spend. The second involves a number of technical adjustments that have no impact on spending power. The third involves a small number of Whitehall transfers, and the fourth involves some cash-neutral transfers of resources between portfolio budgets.

The net impact of all those changes is an increase in the approved budget of approximately £451 million, from £33,739 million to £34,190 million. Table 1.2 on page 6 of the supporting document, "The 2012-13 Spring Budget Revision", shows the approved budget following the autumn

budget revision and the changes that are sought in the spring budget revision.

There is deployment of £51.3 million of funding from available Barnett consequentials flowing from the United Kingdom autumn budget statement in December 2012, Her Majesty's Treasury transfers and the utilisation of budget exchange flexibilities. In my announcement to the Parliament on 19 December 2012, I confirmed that a further £25.2 million of capital budget would be allocated for 2012-13 in the spring budget revision. The revised budget therefore reflects funding for transport initiatives; economic development and regeneration projects; culture and heritage projects; rural, environment and tourism projects; support for the maintenance and improvement of the Scottish Court Service estate; and local government.

In addition, £16 million of funding is allocated to health and wellbeing. It will be managed by the portfolio within existing resources to support Commonwealth games and Olympic legacy initiatives in 2012-13 and over the next two years. I have also provided a budget of £5.6 million to support investment in essential equipment at the Scottish crime campus, and other net budget cover that amounts to £4.5 million.

The second set of changes comprises a number of technical adjustments to the budget, which are non-cash and budget neutral. However, it is necessary to reflect those adjustments to ensure that the budget is consistent with the final outturn that is reported in our annual accounts.

The main technical adjustments in the spring budget revision include £187.5 million of additional AME—annually managed expenditure—budget for non-cash provisions, impairments and depreciation to align the budget for accounting purposes; £41.3 million of non-cash cover to align the international financial reporting standards-based budgets for public-private partnership and private finance initiative schemes for year-end accounting purposes; £192 million for the impairment of student loan balances on income-contingent repayment loans; a non-cash budget of £58.3 million to cover forecast increased depreciation on the road network; and a non-cash net technical reduction of £80 million in respect of the Scottish teachers' and national health service pension schemes arising from a number of actuarial assessed factors.

With regard to Whitehall transfers, three are recorded in the spring budget revision, resulting in a net impact of -£0.7 million on the approved budget.

The final part of the budget revision concerns the transfer of funds between portfolios to align the budgets with profiled spend. There are a number

of internal transfers within the budget as part of the revision process, which have no impact on spending power.

The main transfers between portfolios include transfers of £18 million from education to local government for the Orkney and Western Isles schools programme; £10 million from culture and external affairs to education for people and infrastructure; £8 million of existing budget provision from other portfolios to infrastructure, investment and cities and parliamentary business and government strategy to ensure efficiency in the delivery of public information and social advertising campaigns and the international marketing and promotion of Scotland; £5.9 million from rural affairs and the environment to local government to deliver rural broadband; and £5 million from finance, employment and sustainable growth to local government for the decoupling exercise in respect of the timing of the Scottish Parliament and local elections.

As in previous years, there are also a number of minor internal portfolio transfers, which have no effect on portfolio totals but ensure that internal budgets are monitored effectively.

The committee will wish to note that, as part of our internal monitoring process, and in line with good practice, we have taken the opportunity in the spring budget revision to deploy emerging underspends in the finance, employment and sustainable growth and infrastructure, investment and cities portfolios to ensure that we maximise the budget that is available in 2012-13—in particular, where possible, to ensure capital investment.

The SBR records the deployment of £30.9 million of redirected budget, which represents 0.1 per cent of the departmental expenditure limits budget. The budget revision also reflects the proposed transfer of budget from resource to capital in respect of the Scottish budget, noting that the Scottish budget records capital that scores in the Scottish Government's consolidated accounts or the accounts of our directly funded bodies.

In the context of our HM Treasury budget, the planned resource to capital transfer is £227.6 million; that switching is managed within the total DEL that is available to the Scottish Government. The increase of £21 million on the figure that was provided in December 2012 as part of the response to the Finance Committee's report on the draft budget reflects the outcome of the internal monitoring exercise in January 2013.

I propose to write to the Finance Committee once we have provisional outturn figures in June with a table that sets out the actual transfers by portfolio and programme in a similar format to the

table that we provided in the response to the committee's report on the draft budget.

As we approach the financial year end, we will continue, in line with our normal practice, to monitor forecast outturn against budget, and wherever possible we will seek to utilise emerging underspends to ensure that we maximise use of the resources that are available to us in 2012-13 and to manage proactively the flexibility under the budget exchange mechanism that has been agreed between the Treasury and the devolved Administrations.

I confirm, in line with previous years, that I intend to make a statement to Parliament prior to the summer recess on provisional outturn in respect of our Scottish Parliament budget and the HM Treasury budget. The brief guide to the spring budget revision that my officials have prepared sets out the background to and details of the main changes that are proposed, and I hope that the committee has found it helpful. I am happy to answer any questions that arise.

The Convener: Thank you for that comprehensive statement. I am sure that there are a few questions from members round the table, although you have answered some of the ones that I planned to ask.

You spoke initially about the £51.3 million arising from Barnett consequentials, HM Treasury transfers and the utilisation of budget exchange flexibilities. Can you give us a wee bit more information on how that amount is split between those three elements?

John Swinney: The Barnett consequentials arising out of the autumn statement totalled £4.6 million. The budget exchange flexibilities totalled £46.7 million, within which is a one-off transfer in respect of Olympic legacy funding, which arose from the issues that the Scottish Government and other devolved Administrations raised with the UK Government regarding the calculation of Barnett consequentials arising out of Olympics expenditure.

Essentially, there was a disagreement with the previous United Kingdom Government, which was sustained with the current Government, about the treatment of regeneration expenditure in the east end of London. Ordinarily, such expenditure would have attracted Barnett consequentials, but the previous UK Government took the view that the Olympics were a pan-UK project and there were no Barnett consequentials arising. We, along with our Welsh and Northern Ireland colleagues, disputed that view. The current UK Government agreed to address the issue, and we reached an agreement that resulted in a one-off transfer of £16 million of legacy funding, which is now being deployed.

The Convener: Thank you very much for that clarification.

Towards the end of your opening remarks, you talked about the resource to capital transfer of £227.6 million, which, as you indicated, is higher than the previous figure of £207 million. Will you expand on how that switch has been achieved and what capital projects will benefit from it?

John Swinney: All the transfers are within-portfolio transfers, so no transfers are taking place between, for example, health and enterprise—they are all health to health or enterprise to enterprise transfers.

The pattern of the expenditure largely follows the plan that we set out previously, although there are differences between some of the areas of performance. On health and wellbeing, our expectation was that there would be a resource to capital transfer of £95 million. We now expect that figure to be about £87 million, because the nature of the health shift is such that it is about supporting more maintenance projects. If we explore the categorisation of what constitutes capital expenditure and what constitutes resource expenditure, we see that some of the maintenance activity ends up being classified as resource expenditure. At the margins of that type of analysis, some changes in composition are evident in our most recent assessment, but the overall picture is that we are moving to a total of £227.6 million.

Some of that funding is for taking forward individual capital projects in the enterprise network and, as I said, health maintenance projects. In rural affairs, we are undertaking some projects to strengthen the forest estate. In addition, we are providing capital grants for the roll-out of superfast broadband and are carrying out work to strengthen the agricultural estate. A range of areas are involved.

The Convener: I will ask one more question before I open out the discussion to colleagues. In your opening remarks, you mentioned that AME of £187.5 million had been agreed with HM Treasury to cover non-cash provisions and impairments. Could you tell us a bit more about what that means in practical terms?

John Swinney: Essentially, a calculation is undertaken several times during the year on different aspects of the Government's budget and what accounting provision must be made for some of our expenditure. The AME budget is not one that we control; it is an area of activity that we negotiate with the UK Government. For example, of the total that you mentioned, £39.5 million of provision will be allocated to NHS boards. That arises from their assessment of some of the potential financial implications of injury benefits.

Other assessments in other portfolios include the accounting treatment of motorway infrastructure, whereby £73.4 million will be allocated to the infrastructure portfolio in relation to the accounting provisions for land compensation payments in respect of road schemes. There will be impairments in the Scottish Prison Service to do with the valuation of its estate and properties, and an assessment has been undertaken of the depreciation that will require to be applied to donated assets across health boards. A range of accounting transactions is taking place as a consequence of this exercise.

09:45

Michael McMahon (Uddingston and Bellshill) (Lab): There are a lot of tables in the document, and a lot of the figures showing money being transferred between budgets are quite clear. However, there is often no explanation of what the transfers actually mean. One example is an

“£80.0m budget reduction for the Scottish Teachers' and NHS Pension Schemes to reflect changes in actuarial forecasts”.

Could you give us an explanation as to what that will actually mean, behind the figures?

John Swinney: Periodically, an actuarial assessment is made of the teachers pension scheme. On this occasion, there was an actuarial recalculation of the closing liability on the scheme on 31 March 2012. That actuarial calculation was by no means insignificant. It went from £23.6 billion to £22.4 billion. As a consequence, a calculation is made about the interest that needs to be calculated on that substantially smaller sum compared with the original estimate. The interest recalculation was £59.9 million. As a consequence of that valuation, there was a reduction in current service costs of £39.3 million.

Those numbers were netted off by a reduction in the capitalisation receipts within the pension scheme, which requires non-cash budget cover. That netted off at £87.1 million. What drove that issue was an actuarial revaluation of the scheme, which resulted in a not insignificant change in the overall position of the pension scheme.

Michael McMahon: Is that scale of transfer common? As regards the document that you have produced, and projecting forward with regard to pension liabilities, is that the type of fluctuation that you envisage from one year to the next?

John Swinney: I find that particular actuarial recalculation to be at the very significant end of the spectrum.

Michael McMahon: So that is not common.

John Swinney: It is far from common. I could not give the committee a range of factors, but a

difference of £1.2 billion is at the very significant end of the spectrum, in my estimation.

Michael McMahon: The document also contains figures such as a

“Transfer of £10m from Culture and External Affairs to Education for People & Infrastructure”.

Again, the documentation does not exactly specify what “People & Infrastructure” is. Can you clarify what that transfer entails?

John Swinney: Essentially, that particular transfer was to deal with underspends in the culture and external affairs portfolio, which then assisted us in supporting the development of the schools programmes. It is essentially a direct transfer to assist us in funding some elements of those programmes.

Michael McMahon: Another example—and it is a fairly substantial figure, considering what it is being spent on—is the

“Transfer of £8.0m to Infrastructure, Investment and Cities ... from other portfolios”.

The document does not say what other portfolios have lost out in order to find that £8 million, but it is for

“social advertising campaigns”.

Could you tell us what those campaigns were?

John Swinney: We centrally manage the social advertising activity of the Government across a range of different campaigns. Individual portfolios have to identify and agree with me and the Deputy First Minister the composition of their advertising programmes so as to have some central control over how much advertising spend the Government undertakes as a whole. Those portfolios have to provide the money for them. Once we reach agreement about the composition of the advertising programme, we take the money from the individual portfolios and put it into the infrastructure portfolio budget, and it is disbursed at that level.

The committee may recall that, in 2010-11, I established a cap on advertising expenditure at 50 per cent of the previous total, which was £6.695 million. That cap has been sustained. We are undertaking advertising expenditure of £6.108 million within that cap and there is additional provision, outside that advertising cap, of £1.532 million for international marketing.

I will give the committee a flavour of the campaigns that were supported within that cap. There was £800,000 for road safety; £800,000 for detect cancer early; £600,000 for the contribution to food waste; £600,000 for the greener campaign, which is about climate change; £500,000 for awareness of organ donation; £400,000 for alcohol behaviour change; £300,000 for home

energy Scotland; £300,000 for active travel; £300,000 for smoking cessation; £300,000 for the take life on national marketing campaign; £300,000 for early years marketing; £200,000 for seasonal flu; £200,000 for no knives, better lives; £200,000 for fuel poverty; and £200,000 for ready for winter. That is pretty much the staple diet of public information advertising that the Government undertakes.

Michael McMahon: From the figures, it looks as though the money has gone into infrastructure and away from health and justice-related campaigns. Is that not the case?

John Swinney: Bruce Crawford previously had responsibility for the management of that process. I had to sign off the overall financial cap but he negotiated much of the detail of the advertising campaigns. When Mr Crawford left the Government and the Deputy First Minister assumed his portfolio in relation to Government strategy, we simply shifted the budget line. At £8 million, it is a relatively small budget line at this level of expenditure, so it was transferred into the Deputy First Minister’s portfolio of responsibilities.

Michael McMahon: So it is not a transfer of money from health advertising to infrastructure.

John Swinney: That is absolutely correct. It is essentially a way of grouping—in our estimation as transparently as we can, although I am not sure that we have succeeded in that effort given the exchange that we have just had—all those areas together in one budget line so that the spending can be observed. It appears in the infrastructure portfolio because that is an area of the Deputy First Minister’s portfolio and she has assumed the responsibilities for Government strategy that Mr Crawford previously held.

Gavin Brown (Lothian) (Con): Cabinet secretary, I refer you to page 15 of the spring budget revision. The lower table on that page has a line for “Energy”, which appears to total £42 million.

John Swinney: Sorry—bear with me a second while I find the page.

Gavin Brown: The energy line appears to be £42 million. If I read the budget correctly, the original figure was £64 million and in the autumn budget revision it went up to £75.3 million. It has now gone down to £42 million. Can you explain what has happened to the energy budget over the course of the year, particularly since the autumn budget revision took place?

John Swinney: There are a number of relevant factors.

First, we expected to spend about £16 million of the renewable energy investment fund on supporting renewables projects. As I have

indicated, and as I indicated to the Parliament during the final stages of the budget bill for 2013-14, we are finding that the uptake of those funds is slower than anticipated. We had provided for that spending and, at the time of setting the autumn budget, the information that I had gave me confidence that it would be deployed in this financial year. As the year has gone forward, however, I have become less confident about that and I am taking action to address the fact that I may end up with unspent resources. As Mr Brown will know, I have to ensure that unspent resources are properly carried forward if they can be. I have made a judgment that the resource will not be required in this financial year.

There is a caveat. Because the fund has been created by the fossil fuel levy resources, the change has to be made good over the duration of the forward period. We will have to demonstrate that the £103 million that was allocated through the fossil fuel levy has been spent over the course of a number of years on renewable energy projects, and I reaffirm our commitment to doing that.

The other major item is that in the community and renewable energy scheme and in some of the microgeneration renewables schemes there has been a lower uptake of the budgeted provision that we had available. In that respect, the Government is redeploying those resources to ensure that we do not lose them in due course.

Gavin Brown: If I heard that right, approximately £16 million is down to renewables projects—

John Swinney: To be absolutely precise, the figure is £13.6 million. It was originally £16 million but I now forecast that a further £2.4 million will be expended from the fund. The change therefore covers £13.6 million from the renewables energy investment fund, £8.6 million from a number of smaller energy projects spread across three areas—community and renewable energy, microgeneration renewables, and the prototyping of offshore wind energy renewables activity—and, finally, about £2.3 million that related to some other projects in the low-carbon economy.

Gavin Brown: If the figure was £75.3 million at the autumn budget review and it is £42 million now, that explanation gives me some of the difference. Are you able to tell us what the remainder is made up of?

John Swinney: The remainder?

Gavin Brown: Your explanation takes us to about £25 million. I think there is a gap of about—

John Swinney: The figure that arises from my response is £24.5 million. Regarding the reconciliation to £75 million, I do not have the

autumn budget revision level in front of me just now, but I am happy to provide clarity and fill in the remainder, which must be about £8 million.

Gavin Brown: On page 16 of the spring budget revision there is a section for the third sector. The original budget for the third sector was £24.5 million and it ends up at £18.4 million, which is a reduction of the best part of a quarter. It appears that £1 million of that is going to a justice change fund. Presumably, it could be argued that that is the third sector in some guise—

John Swinney: That was always the plan. When we set the reducing reoffending change fund, part of the financial underpinning was the transfer of £1 million from the third sector budget to the justice portfolio for that purpose.

Gavin Brown: That makes sense. However, there is a reduction of the best part of £5 million in what is notionally called the third sector budget. Are you able to explain that? Has that money gone to the third sector in some other way, or has the sector effectively lost it?

10:00

John Swinney: We ran a programme in previous financial years in relation to the enterprise growth fund, which was principally for social enterprises. That was a very successful fund, and the Government committed to taking it forward. As we have gone through the consultation exercise on how best to focus and target the fund in future years, the discussion and dialogue and the procurement process have gone on for longer than we had originally estimated, so those resources will be unable to be spent during this financial year.

The enterprise growth fund will be launched very shortly, but the expenditure will not arise in this financial year. Essentially, the change is part of my assessment of where programmes have not been able to match the level of performance that we expected, so we have redeployed those resources to other purposes.

Gavin Brown: Page 52 of the spring budget revision document shows that the Young Scot fund was originally due to get £5.4 million, but that was apparently reduced by £2.4 million in the autumn budget revision, and the spring budget revision will reduce the fund further by £2 million. That will leave the Young Scot fund with £1 million instead of £5.4 million. Can you explain what has happened there?

John Swinney: The issue there, essentially, relates to timing. Some of the propositions that we expected to have been funded under that line have not materialised at this stage. However, the

funding commitment that we have given to that will be made good in future financial years.

Gavin Brown: The final issue that I want to ask about, which the convener has asked a little about already, is the revenue to capital switch that you referred to in your opening statement. I know that you said that you will send us a table showing us where the switches have happened. Did you say in your opening statement that that would be available in June?

John Swinney: We will provide it when we are in a firmer position in relation to outturn. As the committee will appreciate, even once we reach financial outturn, there is still a process of assessment and validation of the approach that we have taken, which can deliver some change. I think that some time after outturn would be the desirable point to provide that table.

Gavin Brown: There seem to be two big changes. First, the enterprise agencies seem to be switching substantially less to capital than was originally envisaged. Can you explain the background to that and why the enterprise agencies did not switch as much from revenue to capital in this financial year?

John Swinney: Essentially, a number of things interact together here. There are changes to budget allocations arising out of the decisions that I have taken when we have acquired new capital resources. Those will have been deployed, so there will be an element of our taking decisions to deploy those resources that can have an effect on the capital programmes of enterprise bodies and others.

Secondly, there is an interaction with capital receipts. An assessment is made of where capital receipts are likely to come from. Those may overshoot or undershoot, and that will have an effect on how those resources can be utilised in due course.

There is also the interaction with particular programmes and projects, some of which will be responsive to demand within the marketplace. On particular projects that at the time of planning we think are likely to come forward and be realised, we need to work with individual companies to shadow their investment plans. If companies change their investment plans, we cannot then deploy our part of the bargain. Therefore, there are quite a number of factors that will play together in that situation.

What we predict at the outset of a financial year is designed to be as accurate and realistic an approach as possible. However, it will vary by a number of factors, whether it is capital receipts, additional capital consequentials that become available or the change of plans by individual

companies or other organisations with which we may be in partnership.

Gavin Brown: I understand the third point—companies' plans change—but I want to follow up briefly on the first two points. Did the enterprise agencies collect more or less in capital receipts than they anticipated at the start of the year? You said that they can overshoot or undershoot. They can do only one, obviously—

John Swinney: They collected more in capital receipts than was anticipated. I took a fairly pessimistic view of capital receipts when we formulated the budget, given the property market. Although that was not a particularly unreasonable assumption to make, the capital receipts have been more significant than we had planned.

Gavin Brown: So Scottish Enterprise collected more in capital receipts than you thought that it would at the start of the year.

John Swinney: It did, yes.

Gavin Brown: By a large margin? Do you have figures for that?

John Swinney: I do not have the numbers to hand but I can provide them.

Gavin Brown: I would be grateful.

On the first point, you referred to changes to budget allocations. If I interpreted that correctly, were you saying that if additional capital is given through Barnett consequentials or in any other way, Scottish Enterprise might get a slice of that and therefore it will not transfer some of the revenue to capital that it was intending to?

John Swinney: That could be the situation.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): I, too, was going to ask about resource to capital—you have covered quite a lot of that area.

I return to some of the top-line figures. Basically, the switch is now £20 million more than you suggested in your response to our report. You have also explained this morning that the reduction of £8 million in health and wellbeing is more apparent than real. You argued that it was doing the same work but was classified as resource. In response to Gavin Brown, you indicated that the minus £5 million to finance and sustainable growth does not really represent a reduction in overall capital expenditure. I am not criticising that decision but I wonder how you come to decisions about how much resource to capital transfer to have. It appears that you have decided to put quite a lot more into resource to capital transfers than you had originally planned. Is that true? What do you base such decisions on?

John Swinney: We have encouraged different elements of Government, essentially responding to the strategic economic direction of the Government to support greater capital investment. Mr Chisholm and the committee will be entirely familiar with the Government's concerns about the reduction in capital expenditure since 2010. Our policy direction has been to encourage and maximise capital investment wherever we can. Different parts of the organisation are responding to that challenge as effectively as they can. Obviously, the Cabinet is leading that process in identifying ways in which that can be done.

The Government will make a judgment about the overall allocation of its resources. We will judge how we can support some of the operational aspects of public services and public spending and how much we can transfer to capital to supplement the resources. We have arrived at a position in which we expect the overall total to be about £227 million for this financial year, compared to the original plan of £206 million.

Malcolm Chisholm: Do you do any kind of economic analysis of the consequences of losing resource or do you just say, "How much can resource budgets endure?" Obviously, there are a lot of difficulties there because of the general financial situation. Can you make an economic assessment that at a certain point shifting too much from resource into capital will have negative economic consequences?

John Swinney: There is a judgment to be made there. That was my point about the sustainability of resource budgets.

Part of our economic analysis is driven by material that I have shared with the committee before, which is the analysis that is undertaken by the Office for Budget Responsibility indicating that £1 of capital spend delivers £1 of economic impact and that £1 of resource spend delivers 60p of economic impact. Therefore, that expenditure is underpinned by economic analysis. We could take that to its logical conclusion and say that we will spend all the money on capital next time, but clearly that would not make sense because operational programmes need to be supported, and portfolios make a judgment about how best that can be undertaken through a mix of resource and capital expenditure.

Malcolm Chisholm: Does the OBR analysis have any timeframe attached to it? I am not being critical—obviously, I support more capital expenditure. However, is there a time lag for the economic effects of capital expenditure?

John Swinney: No, although we know that different models of capital expenditure will have more impact. Direct capital expenditure that we

can offer begins to have an effect on the economy immediately and directly.

Malcolm Chisholm: How much of the £51.3 million came as capital and how much of it came as resource? It looks as though a lot of it is capital but not all of it.

John Swinney: I do not have the split between the two in front of me, but it would probably be safe to say that about 50 per cent of it is applied as capital. The lion's share of the remaining £16 million is funding for the Commonwealth games Olympic legacy, which is resource expenditure. It is safe to say that about 50 per cent of the £51.3 million was deployed as capital expenditure.

Malcolm Chisholm: How much of that came as part of the budget exchange flexibility?

John Swinney: About £46.7 million came as budget exchange flexibility.

Malcolm Chisholm: Does that mean that most of that money will be spent in future years?

John Swinney: The £51.3 million will be spent in the current financial year.

Malcolm Chisholm: Sorry—how much?

John Swinney: The £51.3 million will be spent in the 2012-13 financial year.

Malcolm Chisholm: How does that work for the Commonwealth games funding?

John Swinney: Sorry. It is allocated to the budget holders and will be deployed as part of their on-going commitments over several years on that particular provision.

Malcolm Chisholm: That is all part of the carry-forward. You are allowed to carry forward 0.6 per cent of resource DEL and up to 1.5 per cent of capital DEL.

John Swinney: That is correct.

Malcolm Chisholm: Are you near those ceilings?

John Swinney: It is an annual calculation. You will know that, in the period before the 2010 change of Government, it was possible to accumulate a surplus in the Treasury and then draw that down. That was abolished in 2010 and replaced with a system that gave us the ability to carry forward 0.6 per cent of resource DEL and 0.5 per cent of capital DEL but on an annual basis, so there is no cumulative sum of money. The allocation for carry-forward from 2012-13 to 2013-14 is about £150 million in resource and about £40 million in capital—about £190 million in total. The budget for 2013-14 is underpinned by more than £100 million of carry-over; therefore, we will have to carry over a certain amount and we are on

course to do so. I am obviously trying to minimise the amount of capital carry-over.

10:15

Malcolm Chisholm: That is not very much capital. I am quite surprised by that. Given the several different tranches that you have allocated to housing this year, does that mean that you are spending all of that money this year?

John Swinney: Yes.

Malcolm Chisholm: But you are also spending—

John Swinney: In the February budget statement, I announced to Parliament that there was £200 million of resource allocated to housing in the past 12 months, if I remember my phraseology correctly. Not all of that will be deployed in the current financial year; some of it will be deployed in 2013-14 as a result of Barnett consequentials that will have arisen to be deployed in that financial year.

Malcolm Chisholm: Okay. Thanks.

John Mason (Glasgow Shettleston) (SNP): Under “Technical adjustments”, £192 million is mentioned for impairment of student loan balances. Can you give us an explanation of what that means?

John Swinney: Essentially, that summarises a revaluation of the student loan book. The value of the student loan book is calculated using the HERO model. The valuation arising out of that is compared with the existing valuation of the loan book and a decision is taken on whether any variation is sufficiently material to require the carry-forward value to be adjusted. The comparison for 2012-13 gives a difference of 6 per cent between the carry-forward and the actual position, which is significant enough to require that adjustment. The variation has, essentially, been driven by material changes in the rate of inflation over recent years. In agreement with the Treasury and Treasury protocol, £192 million of budget cover has been provided for that purpose.

John Mason: Right, so that comes from Westminster and does not affect our budget.

John Swinney: That is correct. Yes.

John Mason: Is that to do with the fact that students will not be earning and will not be able to repay their loans?

John Swinney: It is driven by a difference in the rate of inflation that will be calculated within the loan book and, therefore, the value that will be realised as a consequence of that factor. It simply creates a need for more provision within the budget to meet the notional cost of that to the

public purse, which is what the AME calculation is about.

John Mason: Thank you.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): The financial scrutiny unit paper that we have been given refers to page 37 of the spring budget revision and says that the proceeds of criminal acts receipts, which total £15.1 million, do not balance with the proceeds of criminal acts payments, which total £10.8 million. It seems pretty clear to me—I wonder whether you can confirm this—that that is because those receipts are utilised on a range of interventions. They become “Retained Income” in the table for drugs and community safety and the proceeds of crime scheme—is that correct?

John Swinney: Yes. The justice portfolio surrenders the £15.1 million from the proceeds of criminal acts to the Scottish consolidated fund and gets back £10.8 million of that for a variety of different programmes to support young people and divert them from crime and antisocial behaviour. Other expenditure, totalling £4.3 million, is transferred to a range of other programmes. For example, £1.7 million went to community justice services for payback grant schemes for offenders renovating sports facilities; £200,000 went to community justice services for mentoring projects; £800,000 went to the police division for the recruitment of additional financial investigators, which is handy for boosting proceeds of crime resources; £0.2 million went to the Crown Office; £0.2 million went to Creative Scotland; and £0.6 million went to international development.

Jamie Hepburn: That is all directed at trying to intervene and stop people engaging in criminality.

John Swinney: That is correct.

Jamie Hepburn: Am I correct in recalling that there is a Treasury cap on the moneys from proceeds of criminal acts that can be used? Have I picked that up wrongly?

John Swinney: We will write to give the committee chapter and verse on that. My recollection is that we can retain only a proportion of the proceeds but, for absolute clarity, I had better confirm that in writing.

Jamie Hepburn: You think that what I said was correct, but you will come back to us.

This is a strange area because, ideally, we would want to have less criminal activity and therefore no proceeds from criminal acts. However, we have the scheme. Is there a forecast for the revenue that it will bring in? Do you just wait to see what comes in? How does that work?

John Swinney: We can form a firmer expectation of what is likely to come in from the

case load that the Crown Office is dealing with and from the Crown Office's expectation of success in individual prosecutions. The Crown Office has been more successful in identifying areas in which proceeds of crime are clearly exposed and how resources can be realised to benefit the public purse.

Jamie Hepburn: The answer to my next question might be contingent on whether there is a cap, which you will confirm. Were the receipts of £15.1 million more or less than was expected?

John Swinney: I think that that is one of the highest figures that we have had for proceeds of crime resources.

Jamie Hepburn: That was helpful.

Jean Urquhart (Highlands and Islands) (Ind): Page 24 of the budget revision document refers to an £18 million

"Transfer to Local Government in relation to Schools programme".

Two programmes—in Orkney and the Western Isles—are identified. I am trying to understand how that transfer works.

Am I right in thinking that there is a budget of about £40 million for the Scottish Government's school building programme, to which local government is invited to bid every year for funding for new school building? I understand that that works on the principle that local government has some money for school building and that, in approving that, the Government could support that with Government money. Does making a transfer from education to local government change the dynamic of school building programmes?

John Swinney: The budget line that you refer to involves a unique issue, which I can best describe as a hangover from the approaches to the PFI programmes that the Government inherited. The nature of the island communities that were involved meant that making some PFI schemes happen was difficult, although they were committed to. The Government had to meet some of the costs of supporting the development of those programmes, to ensure that the schools could be built. I would not read into the transfer a general approach to school building; it is unique to the situation in Orkney and the Western Isles.

School building will be supported by two mainstream opportunities. One will involve direct capital—we provide a capital grant to local authorities and they make their own decisions about how to deploy that. The other will involve the non-profit-distributing programme, which is taking its course.

The Government gave a commitment to the authorities in Orkney and the Western Isles, to

ensure that the schools programmes could continue. I would not read anything more into the budget line than that.

The Convener: Under item 2, we move to the debate on the motion.

Motion moved,

That the Finance Committee recommends that the Budget (Scotland) Act 2012 Amendment Order 2013 [draft] be approved.—[*John Swinney.*]

Motion agreed to.

The Convener: The committee will communicate its decision formally to the Parliament in a short report that links to the *Official Report* of the meeting. Are members content with that approach?

Members indicated agreement.

The Convener: I suspend the meeting briefly while the witnesses change over.

10:25

Meeting suspended.

10:26

On resuming—

Employability

The Convener: Item 3 is to take evidence from the Cabinet Secretary for Finance, Employment and Sustainable Growth on the committee's report on improving employability, which was published on 3 December last year. The cabinet secretary is accompanied by Julie Ann Bilotti and Martin McDermott from the Scottish Government's employability and skills division. I welcome the cabinet secretary again, and his officials.

As a reminder, the remit of the inquiry on improving employability was:

"to explore the need to improve the employability of individuals experiencing high levels of multiple deprivation as a prerequisite to increasing sustainable economic growth."

A plenary debate was held on the subject on 8 January this year. I invite the cabinet secretary to make an opening statement.

John Swinney: I have given the committee a response in the chamber and also a written response, so I am happy to answer questions based on those contributions.

The Convener: The cabinet secretary wrote to me on 18 February, and colleagues will have copies of his detailed responses to the questions that were put to him. Of course, when someone responds to questions, that often generates further questions. I am sure that colleagues around the table will have plenty of those and I certainly have a few of my own. In the usual way, I will start with some questions before opening the session to colleagues around the table.

My first question relates to your response about the employment recruitment incentive. That consists of £1.5 million over three years to support 1,000 disadvantaged young people, including care leavers, carers and ex-offenders, by providing an incentive of £1,500 per individual to encourage employers to assist and support the transition of young people from those backgrounds into sustainable employment. Could you explain how that will work and provide some background? Will the payment be a one-off payment for four or six weeks of support, or will it provide on-going support?

John Swinney: We will work with employers to ensure that we put in place resources that enable them to sustain the recruitment, employment and training of individuals. I envisage that the payments will not be one-off but will be dependent on performance as we proceed through the deployment of the initiative. We must be sure that the initiative delivers the outcome that we seek, so

the funding is conditional on performance, and Skills Development Scotland will work closely with individual companies to progress that.

10:30

The Convener: I note from the Scottish Government's response that £3 million has been allocated to the

"Third Sector Challenge Fund to provide additional pre-employment support to 1,754 young people."

Three million pounds is a fairly round sum of money, but 1,754 is a fairly precise number of young people. How did you arrive at that figure?

John Swinney: That figure will have been driven by a calculation of the expected per capita cost of support within the £3 million budget. The contract value is actually £3,200,276, so the figure is not quite as rounded as we have suggested in our response; it is slightly more. We will look at the cost of the programme and the number of individuals who can be assisted.

The Convener: In preparing such programmes, do you look at how much money is available and fit the number of young people you can help into that, or do you look at the number of young people you want to help and see what resources are available? How does the process work?

John Swinney: It is driven by a policy desire to take a particular course of action—on this occasion, to ensure that we have in place support that is targeted at the social enterprise and third sector communities. A sum of money—in this case £3 million—is allocated at the strategic level, and we work out a reasonable cost for reimbursing organisations for taking on an individual under that particular initiative. Organisations will bid for the funds and, once we see those bids, we will make an assumption about whether the amount will be exactly £3 million on the button, or £3,200,276 as it is in this case. The figure is driven by the bids that we have received from organisations.

The Convener: When you are seeking to put together such a fund, how do you assess potential demand? How do you know that there might be demand from 1,700 or 1,800 people, as your response indicates? There could be demand from 5,000 people. How do you address that aspect?

John Swinney: I concede that some of our judgments will be based on the resources that are available. When we allocate resources from the substantial numbers into individual programmes, and we end up with approximately £3 million for a fund of this type, I am afraid that the test of affordability must be the determinant, but we will try to maximise the effectiveness of that resource as far we can.

We formulate the relevant interventions that we can make by examining the current composition of the labour market and looking at particular challenges. In the latter part of 2011, the Government recognised that we had a significant youth unemployment problem that required specific action. We deployed a set of different interventions to address that through a specific policy approach, and we are now beginning to see a better position in that regard. Youth unemployment is still far too high, but it is not as high as it was in December 2011. We are beginning to see the fruits of some of that activity to try to reduce the level of youth unemployment.

The Convener: In the evidence that the committee took, there was a lot of concern about where responsibilities lie between the UK Government, local government and the Scottish Government. I was pleased to read of your chairing the first meeting of the reconstituted Scottish employability forum on 31 January. The forum will have a rotating chair between the Convention of Scottish Local Authorities, the Secretary of State for Scotland and you. How do you envisage the forum working to deliver joined-up support for people who require employability support?

John Swinney: The concern that the committee has expressed about the need for there to be consistency and complementarity between the different approaches of different spheres of government is at the heart of why we have the Scottish employability forum. The secretary of state, COSLA and I all accept that there is the potential for overlap, duplication and a lack of consistency, as the committee has suggested. The Scottish employability forum is designed to be a response to that.

At the first meeting of the forum, we heard a pretty challenging presentation from Professor Alan McGregor, with whom many of you will be familiar from the training and employment research unit at the University of Glasgow. On behalf of the employability forum, Professor McGregor leads a delivery group that is tackling that issue. Professor McGregor's presentation was as robust as anyone who has heard him speak before would expect it to have been. As a consequence of that, we agreed that the delivery group that Professor McGregor leads would go off and tackle particular areas of potential overlap and lack of consistency and return to the employability forum with a strong mandate for us to tackle the issues and to make progress. From that discussion I got a very strong sense that, notwithstanding the different responsibilities that exist in different parts of government, there is a joint willingness to tackle that question.

The Convener: We will try to keep focused, despite the volume of the responses from the young people in the crèche next door—I hope that they are not responses to our deliberations.

You have said, as previously noted, that the employability fund will be open to all unemployed people of working age who have not yet been mandated to the work programme. How many people are likely to be assisted by the fund and how will it work in practice?

John Swinney: In 2013-14, we expect the fund to deliver just over 17,000 individual training opportunities, which will be in addition to the commitment to 25,000 modern apprenticeships. The fund will focus significantly on young people, but we recognise the need to support adults who have been unemployed for up to 12 months. There will be a lot of joint working with the college sector, and the procurement process started back in December on behalf of Skills Development Scotland. We will pursue that in the course of the financial year to come.

The Convener: Paul Wheelhouse and Elaine Murray, who were members of the committee when we did a lot of the work on this, took a particular interest in the rural aspect of employability. In the Government response, there is talk of a bus for jobs scheme. We are told that the scheme

“covered about 70% of all bus routes in Great Britain. We understand the scheme could be extended if there is good feedback.”

Can you tell us a wee bit more about that? Where are the 30 per cent of bus routes that were excluded? How is the scheme going to work to help employability?

John Swinney: I would have to get back to the committee on the question about the 30 per cent of bus routes—I do not think that I could answer that today. We touched on the wider question of rural support in the debate in January. It is important that we have in place an offering that is relevant to every part of the country.

When I was in Fort William recently for discussions with local players in the field of employment and employability, I was struck by what they said about the demographic profile of their area. There is a tendency for many young people to leave that locality to go to further and higher education opportunities outwith the immediate labour market, although the local West Highland College is trying to reverse that trend through work with the University of the Highlands and Islands. The demographic profile of the locality therefore suggests that more adults require support beyond what is being provided. Part of our approach on the employability fund is to recognise that we must deal with different demographic

profiles in different parts of the country with regard to who requires support to gain access to employment. That aspect will be reflected in the roll-out of the employability fund.

The Convener: Evaluation is an issue that came up in the report. In the Scottish Government's response to the report, you give some detail on the strategic logic model, which

"will inform each evaluation of individual employment and skills initiatives".

Your response gives some information on the model, but can you talk us through it a bit just for the record?

John Swinney: Essentially, the strategic logic model has been designed to take into account the guidance on the evaluation of programmes that HM Treasury produced. At the project and programme level, the model will explore the effectiveness of the range of different interventions that we provide to support individuals into employment. The model will focus on measuring progress towards the objectives that we set for Skills Development Scotland and will explore the extent to which our approach at policy level supports the achievement of outcomes in the national performance framework, in which the committee has taken a strong interest.

The approach will also aim to draw on a range of information sources that can test whether the model is delivering the results that we could have expected, and it will highlight any gaps in our knowledge and understanding of the marketplace as a consequence. It is therefore designed to look at the whole through-flow from the setting of the national performance framework and what we want to achieve as a country, to how that progresses into the design of the strategy for Skills Development Scotland and the whole area of employability, and how that translates into programmes; it will then work its way back through that to determine whether the programmes are fulfilling the Government's strategic objectives.

The Convener: In our evidence sessions, but particularly in the workshops that we held when we went to Dundee, Dumfries and Ardrrossan, in my constituency, we heard a lot of concerns that local authorities and the national health service were not taking on their share of apprentices and young people in other areas. In the Government's response to the report, you say:

"We have asked all Scottish Government public bodies to submit youth employment plans which set out exactly what they will do in this regard ... on 23 January the Chief Executive of NHS Scotland, Derek Feeley, wrote to each NHS Scotland Board asking them to report by 28 March on activity to improve employability during"

the current year and in 2013-14. Will you be able to provide the committee with details of that

following 28 March and details of what local authorities are doing in the area as well?

John Swinney: I will be delighted to provide information to the committee on what is undertaken directly on the Government's behalf and by public bodies at the Government's behest. That message has been strongly communicated by the Minister for Youth Employment, the permanent secretary and me, and the Government reported to the committee on that.

10:45

I would prefer it if the committee sought information on what local authorities are doing on the issue from local government directly, because I think that that would be a more appropriate channel. Clearly, we discuss the priorities with local government, but I try to avoid requiring local government to report to me on them. However, I think that it is entirely legitimate for the committee to ask that question of local government.

The Convener: I have a final question before opening it out to colleagues. In relation to "Working for Growth: A refresh of The Employability Framework for Scotland", you state in your response to our report:

"Employers are ... helping to inform the shape of the new Employer Recruitment Incentive".

I asked you initially about the statement in your response to our report that the Government will provide £1.5 million over three years

"to support 1,000 disadvantaged young people".

Do you have any further information on the recruitment incentive that you can convey to us?

John Swinney: The employer recruitment incentive will support the creation of up to 10,000 job opportunities for young people in small and medium-sized enterprises. We will contribute £15 million of funding to that and £10 million will come from the European social fund. The incentive will provide a 50 per cent wage subsidy over a six-month period. The incentive is primarily aimed at helping young people between 16 and 24 who have been unemployed for up to six months. It will try to help the SME sector directly to contribute towards economic recovery as a consequence of businesses expanding their staff teams.

The work on the incentive is far advanced. I imagine that funding decisions on particular commitments will be taken in the early part of the financial year, so the incentive is well on the way to being deployed.

The Convener: Thank you. I open it up to questions from members, and the first to ask one is Gavin Brown.

Gavin Brown: Just to follow up on your final question, convener, the Government's response paper says that the employment recruitment incentive

"will go live in April."

Is that still the timescale?

John Swinney: Yes.

Gavin Brown: I am going on memory here, but I think that in your initial budget speech back in September you said that there would be money from the Scottish Government that would be match funded by European money and what I think you described as business investment or contributions—I forget the exact wording.

John Swinney: It is what I just expressed to the committee, which is that there will be £15 million from the Scottish Government and £10 million from the European social fund, which is not quite a matching amount. That funding will offer a 50 per cent wage subsidy for a six-month period. Clearly, the other 50 per cent would have to come from the businesses. In essence, therefore, the public purse will meet 50 per cent of the costs of an individual's wages for six months.

Gavin Brown: Another issue that we looked at is the funding of the third sector. We discussed that in quite a bit of detail during the debate on that subject. As other committee members will have done, I certainly saw a lot of evidence from the third sector that stated that providers are not getting three-year funding as the norm and that, in many cases, they were still getting single-year funding, which is an issue that various political parties and Governments, including your own, have tried to do something about. The committee made a suggestion, which is not necessarily correct, on what we could do about that, but you have not indicated that you will take that forward. However, is the Government minded to do something additional to try to help with that?

John Swinney: As I have indicated to Mr Brown in correspondence, I am happy to take forward a discussion about how we can create the conditions in which there is a greater propensity to deploy three-year funding for third sector projects. The Government's commitment on the question has been clearly expressed. There is a joint agreement, which Mr Brown has cited in debate and which I will cite again. The joint statement on the relationship at local level between government and the third sector states:

"As a general rule funders will aim to take a 3-year approach to both grant and contract funding."

There will be certain circumstances in which that is just not possible, but I do not think that members are arguing that it should be possible in absolutely every case. However, I recognise that members

are arguing that it should be more prevalent than it is. I am certainly happy to explore with members how best we can deploy that. We could do that in a range of different ways, up to and including making funding conditional on three-year deals being in place. That is at the draconian end of the spectrum. However, we need to make a number of interventions to go beyond exhortation and into implementation.

Jean Urquhart: There was quite a lot of publicity around the case of a young graduate on one of the work programmes in England who was asked to work for nothing in a store. Has that topic been discussed with the Secretary of State for Scotland in the employability forum? Is working for nothing for a couple of weeks part of any of the employability programmes that we are developing?

John Swinney: That subject has not been discussed with the secretary of state, nor was it discussed at the Scottish employability forum. I think that the forum probably met before the court case to which you refer crystallised, if memory serves me right—I am pretty sure that it did.

An interesting point arises from Jean Urquhart's question as to whether we think that all interventions are as effective as they could be. I do not say that to have a go at anybody else. Other people might think that some of our interventions are not particularly good. It will be interesting to see how the employability forum progresses in discussing what works and is of benefit to individuals in helping them to make the journey from unemployment into employment and stable support. We should be prepared to have that discussion. We need to challenge some interventions to determine whether they are of any value. I am referring not just to the example that Jean Urquhart cited but to schemes and initiatives that we may preside over.

Jean Urquhart: A lot of employers across Scotland take secondary school pupils for work experience, which is quite a different thing.

Michael McMahon: In my capacity as convener of another parliamentary committee, I hear regularly—and quite rightly—concerns being expressed across the board about the new welfare reforms and the drive by the Department for Work and Pensions to do things online. Those who are the most disadvantaged and are the least likely to be able to use online mechanisms are the people who need support and assistance the most. However, when we look at the issue of career development and skills, we hear the similar argument from some teachers and users, and even some people in SDS, that the people who are in most need of support and the least likely to be able to cope with online technology as a means

of gaining that support will have to use the my world of work website.

Will you explain why, although the Scottish Government—among others—thinks that those who are most disadvantaged should not be forced to use online technology as a result of welfare reform, it is confident about those who are most deprived and disadvantaged relying on that technology for my world of work?

John Swinney: That accusation would be fair if the only way in which people could access information about employment was through visiting the my world of work website, but that is not the case. I have seen the my world of work system, which is absolutely magnificent. It is there to give young people—most of whom are technologically capable and very interested in technology and in interacting through the technology that is available—the opportunity to find information that suits them about the choices that they will make about their future careers. However, that is not the only show in town.

Part of the purpose of my world of work is to rebalance the way in which advice is available. Those who find the system difficult, who cannot access it and who need a bit more support to determine the best way to secure their interests in the long term can have face-to-face contact with careers advisers. That remains an essential part of the careers advice system that is in place.

People are encouraged to use my world of work as a technology interaction. That system is excellent, but the capability remains for people to engage in face-to-face discussion with careers advisers to obtain the necessary support. That is entirely appropriate.

Michael McMahon: The committee made recommendations in relation to one-to-one support and the development of more work support and work coaching. What timescales do you envisage for expanding that direct contact?

John Swinney: We have emphasised the idea of work coaching, which Mr McMahon highlights. The young people who left school in December 2011 and May 2012 and who require face-to-face contact have been given the offer to pair up with work coaches—that was done by January 2013—to ensure that such support is available to those who require it.

Michael McMahon: I was expecting you to give us more information. Do you want to take the opportunity to add anything?

John Swinney: I have given the detail that I have to share with the committee now.

Michael McMahon: Okay—thanks.

Malcolm Chisholm: I was not on the committee when it did the inquiry, so I am not as well informed as my colleagues are. I was struck and impressed by the report, because it is focused. It highlights the needs of those who are most disadvantaged and furthest from the labour market. During the debate on the report, I observed that your framework document addressed that issue, just as the previous document did seven years ago. However, the evidence—such as we have—is that there has not really been a step change in the support available for those who are most disadvantaged in the labour market. To what extent did you have to change the policy focus in the recent document? Has there really been a shift in the Government's focus or will there be continuity and business as usual, although we know that the policies have not really been successful?

John Swinney: In an ideal world, I would take the view that the focus on providing assistance for those who are furthest removed from the labour market had a beneficial effect. We saw that translated into the labour market statistics in the period from around 2006 to 2008, when there was a marked improvement in the labour market position. There was then a financial crash, which created economic dislocation. It would be nice if such things did not happen to interrupt the good, sustained work that we do to tackle these problems but, unfortunately, they do happen and they create economic dislocation of that type.

11:00

The committee highlighted in some of its discussions on this question that that creates another factor with which we have to wrestle within the labour market. There is economic shock and rising unemployment, and some of those who have found it most difficult to get into employment or who have found it most difficult to access the labour market will probably have those challenges reinforced as a consequence of economic dislocation.

That means that we must be extremely focused in the services that we provide to those individuals. In the parliamentary debate, I was not trying to suggest for a moment that our system and approach are perfect. We are on a journey to make our employability approach much more cohesive and much more targeted on those who require the most support. That remains at the centre of the Government's perspective on the issue.

Malcolm Chisholm: It is good to hear that. It is tempting to focus on those people whom it is easier to get into work, as that helps to meet targets, costs less and so on. What are the two most significant shifts that you have made to

refocus your approach more on the most disadvantaged people? What two or three things will really make the difference that we have not yet seen to any great extent?

John Swinney: Before I answer that question, I will address the suggestion that concentrating policy on those who are closest to the labour market costs less. I do not take that view at all. In the long run, if we concentrate on the people who are close to the labour market and ignore or do not do enough for those who are most disadvantaged and hardest to get into the labour market, the cost of that to the public purse will be horrific. We will get into an entrenched spiral of social problems arising from that economic inactivity and, as a society, we cannot afford to allow that to happen.

I will try to identify some of the actions that we have taken that have focused things the most. The first of those has been the suite of youth employment initiatives that we have taken. I go back to my earlier answer to the convener. We had an acute problem of youth unemployment, which resulted in the decision to appoint Angela Constance as the Minister for Youth Employment and to focus more sharply on avoiding another generation being lost to employment. The labour market statistics show that that is beginning to deliver a very strong impact on the utilisation of young people in economic activity. That is one area in which we have made an impact.

Secondly, the move to the employability fund and the emphasis on the role of the third sector are designed to reach some of the hardest-to-reach individuals. I have made no secret of my view that the third sector is often capable of reaching some of the most disadvantaged individuals in our society much more effectively than the public sector can through the approaches that we take. I am keen to ensure that we sustain the third sector's involvement. That goes to the nub of Gavin Brown's point about the sustainability of funding in those channels.

Malcolm Chisholm: I certainly agree about the role of the third sector. In the debate, I mentioned Barnardo's works, which is in my constituency. Perhaps I should know this, but what additional funding is available for third sector employability projects?

John Swinney: That is reflected in a range of opportunities through the employability fund. Increasingly, the wider third sector interventions that the Government is making, for example, in the strengthening of social enterprises through the enterprise growth fund and the just enterprise fund, are designed to do exactly that. All those measures are focused on strengthening the third sector to make a greater contribution.

A number of third sector organisations are involved in the delivery of the UK Government's work programme. I think that it would have been beneficial if those organisations had been more directly involved in the programme than they are in acting on behalf of the providers, because that would have resulted in a more efficient and joined-up approach.

We also have community jobs Scotland, a Scottish Government programme that has helped the third sector in that respect.

Malcolm Chisholm: I accept what you say about the cost in the long run of not doing the work that we are talking about. To go back to the Barnardo's works programme, I made some points in the debate about how that keeps people on board for a longer time and offers more intensive support. In the short run, it is probably costing more than some other programmes. The other point is that the programme takes quite a lot of people who are in their 20s. The committee accepts the importance of the late teens age group, but the increasing focus on that group is another concern that was raised in the report—there is a worry that many people in their 20s are also in that kind of situation.

John Swinney: I would not want my comments to be misinterpreted. I quite accept that finding solutions for those who are furthest from the labour market will be more expensive but, if we do not tackle that in the short term, addressing the entrenched social problems that will arise as a consequence will be even more expensive.

Since the latter part of 2011, the Government has had a relentless focus on the youth employment position and we are now beginning to achieve significant progress. As a consequence, the approach that we have taken on the employability fund has started to reflect a response to the committee's concern about support for people in an older age group, which I acknowledge is a significant factor.

Jamie Hepburn: I will return to careers advice, which was debated some months ago in the Parliament. The idea that people had to rely on the my world of work website was posited at that time. You have clearly and fairly stated that there is a range of interventions available, but is there not scope for you to go further? Is it not fair to say that the system that the Government has put in place now, far from leaving people to rely on that website, actually identifies those who are in greatest danger of struggling to access the guidance, and prioritises those people so that they get the most significant intervention to provide them with that guidance?

John Swinney: That is a fair reflection of the shift to the idea of work coaches, who provide

some of the practical support that individuals require. By making the my world of work website available in the careers advice system, many individuals can readily access that to satisfy their requirements and have no need to use people resources to source advice, which makes such resources and advice available to those who need it most.

My experience of observing the utilisation and effectiveness of the my world of work website gives me confidence that the website and its interactivity meets the needs of those who can be satisfied by it, but also frees up resources for those who require more detailed intervention.

Jamie Hepburn: It would also be instructive to refer back to the debate, in which I think the Minister for Youth Employment made the point that anyone who wants to access careers advice through an appointment with a careers adviser can do so.

John Swinney: Yes, of course. That is absolutely right.

The Convener: Thank you very much to colleagues, the cabinet secretary and his officials. That appears to be the end of this morning's question session. We have now been in session for 100 minutes, so we will have a five-minute recess.

11:09

Meeting suspended.

11:16

On resuming—

Demographic Change and Ageing Population Inquiry

The Convener: Item 4 is to take evidence from the Convention of Scottish Local Authorities on the committee's report "Demographic change and an ageing population", which was published on 11 February.

I welcome to the meeting Councillor Kevin Keenan, Councillor Peter Johnston, Ron Culley and Andy Witty. I would like the witnesses to make an opening statement.

Councillor Peter Johnston (Convention of Scottish Local Authorities): Thank you very much, convener. It falls to me to make an opening statement.

COSLA is delighted to provide oral evidence. We certainly support the committee's agenda and recognise that the impact of demographic change is of the first order. If it was second to anything—in a marginal way—that would be to tackling health inequalities.

Thank you for introducing our spokesmen. I am the health and care spokesperson for COSLA.

Councillor Kevin Keenan (Convention of Scottish Local Authorities): I am the capacity and resources spokesperson for COSLA.

Ron Culley (Convention of Scottish Local Authorities): I am chief officer, health and social care, at COSLA.

Andy Witty (Convention of Scottish Local Authorities): I am the policy manager in the finance team at COSLA.

Councillor Johnston: Local government has long known about the challenge relating to demographic change. Since 2010, we have undertaken modelling work to look at the future funding gap between the services that we will need to provide and the available funding. That revealed that the gap will rise to almost £3 billion by 2016-17 across all council services. We believe that the greatest impacts are likely to be felt in social care, housing and welfare.

Our ageing population and the consequential increase in demand form only the headline. By dint of the change, a smaller working-age population will have to bear the costs of supporting a larger non-working-age population. We believe that we will also have a more atomised community, with more single households, and more people potentially moving away from the towns, villages and communities that they grew up in. In turn, that could have a wider impact—for example, in

producing a deficit in the number of unpaid carers, in family support for people in their own new homes and in mounting greater pressure on formal state provision.

Local government is undertaking a range of actions to try to close the gap, which include redesigning services, modernising working practices, driving through efficiencies and engaging in sensibly planned shared services when they are appropriate. Preventative spending is clearly one example of that. COSLA's view is that preventative spending approaches must be the focus for future financial planning. Change funds are a start, but we accept that the evidence of the shift towards prevention is inconclusive so far. We have witnessed significant levels of innovation in delivering new upstream interventions, but we have yet to fully capture their efficacy or lever out the resources downstream.

COSLA is therefore asking questions that are similar to those that are raised in paragraphs 60 and 61 of the committee's second report in 2013. Whether the emphasis on the shift towards a preventative spending approach will result in sufficient savings in the short to medium term to address any future gap remains to be fully examined.

Our key message is that, even with the actions that local government and our partners have taken, it is highly unlikely that the funding gap will be entirely closed and, what is more, it could well remain substantial. A second key message is that we cannot separate out our efforts to support early intervention from the broader public spending constraints and increasing levels of demand. Unfortunately, upstream interventions tend to be most squeezed under conditions of financial constraint, but that could militate against our efforts to address what some have termed failure demand. Therefore, COSLA is aware of the risk that shorter-term issues could become a distraction due to, for example, a focus on the short term to deal with the current financial challenges and other agendas such as welfare reform.

Colleagues, those were our opening remarks. We are happy to take questions and we look forward to engaging with you.

The Convener: Thank you very much, Peter. When we put questions, they will not necessarily be specifically to you, so your colleagues should also feel free to answer. I will start with a few openers and then allow colleagues around the table to come in as they wish.

COSLA has provided us with two submissions, which are quite similar. In the document entitled "Written submission by COSLA in advance of giving oral evidence to the Committee"—I mention

that so that people know which one I am quoting from—paragraph 7 refers to an issue that you touched on in your opening statement. It states:

"COSLA is calling for a fundamental discussion about how the funding gap can be addressed."

How should that discussion be structured, given the resource constraints? How do we take on and address that gap, given the economic situation that we are in?

Councillor Johnston: Wow—that is a huge question. Ron Culley will have a first stab at that.

Ron Culley: Yes, that is a huge question and there are several parts to our answer to it.

For a number of years, COSLA has asked for some reflection on the overall financial arrangements that support local government and our local partners. That has ranged from our contribution to the Beveridge report, which was published a few years ago, to our contribution to the Christie commission report and our more recent discussions with the Government.

The discussion should probably explore two fundamental issues, of which the first is the policy framework that we have in Scotland. For example, if we want to focus in the future on preventative spend while recognising the current circumstances of living in a highly constrained public spending environment, there is a question about priorities. With the Government and others, we want to open up the question of the priority that we attach to different policy agendas. That is one area in which we would like to take the conversation forward.

The other area, which is tied more specifically to health and social care issues, is about how we structure the funding of care and support. As the committee will be aware, the UK Government recently commissioned Andrew Dilnot to examine that issue at UK level. The UK Government has not faithfully pursued his recommendations, but his report is nonetheless an attempt to grapple with the big structural issues that we face about how people finance care into their old age.

Much of the media commentary on Dilnot focused on his ideas about individuals trying to protect their assets when they need to draw on formal support from the state in their older years, but a big component of the Dilnot argument that was missing in the media's analysis is the desire to allow people to plan for their older age by making decisions as younger adults so that, when they come to need support in the future, they have in effect insured themselves against that risk.

Dilnot makes the point that we try to make such insurance decisions in every other area of our lives, whether as a motorist or a householder, but we do not insure ourselves in relation to such support. One argument is that we should not need

to do so because the state, through the formal taxation system, should be there to provide support. However, Dilnot recognised that the consequences of demographic change mean that it is difficult to envisage the state supporting all people at all times during the later years of their lives.

We need to give some thought to such issues in Scotland. Our policy framework is at odds with the Dilnot work in some respects. For a start, we have free personal care, so we would need to think about how the discussion would play out. We do not have the answers on how to structure the funding of care and support, but that needs to be thought about.

The Convener: Do any colleagues have additional comments?

Councillor Johnston: I think that we would all like to add to that.

Councillor Keenan: The point is that we should never bury our heads in the sand; we know what we are moving towards. COSLA and its partner agencies are working to reduce the number of individuals going into hospital, perhaps by putting in the early interventions that make a difference. The pot of money that is going into that at the moment possibly is not enough. However, demographics suggest that another sweeping of people will come in to fill the gap that we clear.

The total direction is unclear; all of us in government need a joined-up discussion about how we best move forward to make a difference. In the committee, and when we meet the finance minister, we discuss the pressures across the whole local government sector. We have seen severe pressure on budgets this year. We need to best use resources to make a difference to people's lives.

Andy Witty: There are a number of high-level aspects. The approach is about partnership working with the organisations that local government works with and delivers through—an example comes from shared services. We need to look at the best way to deliver the capacity in the community. We are talking about looking at our role and our responsibility with the community—the Christie report talked about doing things not to communities but with them. We need to develop that aspect of the discussion.

Another high-level element is taking demand out of the system for whatever aspect is being dealt with. There will be different ways of taking that forward, which will depend on the area of local government work. Having local solutions that deal with an area's needs will be important, and that requires local government to interact at the local level and understand its communities.

Councillor Johnston: I will add to that from my perspective as the health and care spokesman. In my introductory remarks I touched on preventative spending. If we are really going to shift the balance of care, it is implicit that there will have to be a resource shift. We would want to engage in that. I am sure that you are aware that, in the past decade, spending on acute health services has virtually doubled, yet we would view that as meeting failure demand.

When I addressed the COSLA conference last weekend I talked about an ancient Chinese lesson. It was believed in ancient China that a doctor's job was to keep people healthy; if a patient became ill, the doctor's pay was stopped. I should clarify that I am not advocating that we stop paying doctors when patients become ill. However, the lesson is that it is important to invest in keeping people healthy. We need to discuss how we can shift into preventative spending the resource that we currently deploy in looking after failure demand. That is the key part of the discussions that we need to have.

The Convener: I will let other members explore that aspect; I am sure that they will do so.

Something that came out of the committee's report was the need to pool resources between, for example, health services and local government to get the optimum outcomes. The example from Highland, which is doing that in a lot of areas, has been mentioned to us on a number of occasions. How does COSLA feel about more sharing of budgets to secure better outcomes?

11:30

Councillor Keenan: COSLA certainly does not oppose the sharing of budgets between partners, and of course the model of local community planning partnerships is the best way forward if we are to integrate services and make a difference. There are many different good models in the country, and there is a monitoring group in COSLA to ascertain how well they perform.

There is a clear commitment to pooling resources, because we realise that the pot of money is continuing to diminish and that the best approach is to work together and make a difference.

Councillor Johnston: We have had and continue to have positive engagement with your Government colleagues, convener, on the integration of adult health and social care bill, which will shortly come before the Parliament.

You mentioned the Highland model. There are other models, such as the West Lothian model, with which I am familiar, given my role in West Lothian Council. The West Lothian model is likely

to be the second option that will be available to local authorities under the forthcoming legislation. Currently we have aligned budgets; following legislation, we will look to move to integrated budgets.

I regard health and care integration as a massive opportunity to tackle health and care inequalities and to operate more efficiently and effectively. For example, in West Lothian an integrated council and health management structure can save the council alone £300,000 annually.

More than that, integration offers an opportunity to build on building bricks that COSLA will advocate in the ministerial task force on health inequalities. We are saying that we must develop a toolkit, and we need an evidence base. We should start with a community health profile, which should deliver the evidence base, and then move to a commissioning model that is driven by the health and care partnership, with councils and health colleagues working in partnership to deliver the services that will meet the needs that the community health profile identifies. That is a massive opportunity to deliver preventative spending, tackle health inequalities and achieve our long-held ambition of getting more from less.

The Convener: We have government at different levels—local government, with 32 local authorities, the Scottish Government and the UK Government—and we have different political parties, all of which have different views. There will be differences of opinion in some areas, of course, but in specific core areas is there potential for a consensus approach, whereby all political parties in local authorities and the Scottish Government take a joint approach?

Councillor Keenan: That is the purpose of the umbrella group that is COSLA. COSLA reaches consensus on the policy that must be rolled out across the 32 local authorities. There is a commitment to delivering the best across Scotland, whatever the council area, and policies are developed in the manner that you described. I am convinced that we have in place a mechanism to deliver the best.

I hope that that answers your question. Our organisation is about reaching the kind of consensus that you are talking about, and everyone is committed to making a difference to the people in their area. I think that everyone who gets involved in politics is interested in making a difference.

The Convener: Sure, but best practice does not seem to be shared across areas as much as it could be. For example, we heard in evidence that the City of Edinburgh Council has a 10-year plan to consider how demographic change and so on

will impact on its budgets, whereas other local authorities are looking at only three years. Given the major challenge that we face in relation to demographics, is there further room not just for COSLA to have an agreed position but for a solid commitment from member organisations on specific areas?

Councillor Keenan: COSLA would certainly look at best practice across every local authority. There is a drive towards that. We are starting to look at key performance indicators to see how authorities are doing against each other. When it comes to planning and budgets, we look a lot deeper than the three years that we put on paper. It is important to have that level of discussion.

As to whether the best thing is to put a plan for the next 10 years down on paper, most people are comfortable with housing perhaps having a five-year budget programme and with local government sticking a bit more closely to the spending review period, which is around the three-year mark, given the unknowns of the spending review. However, if there were benefits to having a longer projection, I am sure that officers and councillors would be well pleased to have that.

Ron Culley: I will pick up a couple of those themes. As part of our duties, if we know of good practice—the convener cited the example of the City of Edinburgh Council—we will make sure that that is shared with our members, either through a political route or through our professional associations. We take that role seriously.

A question was asked about the extent to which we can reach consensus. That will be a crucial question over the next few years, particularly as some of the issues that we will have to deal with are potentially divisive. Given that democratic politics is by its nature competitive, and people will therefore try to secure competitive advantage in that arena, there will be challenges to reaching consensus.

One of the big themes that we need to grapple with is the idea of disinvesting in the acute sector so that we can redeploy resources more effectively upstream. There is probably a policy consensus on that just now, but we fear that that consensus might break down when we have to decide to take beds out of hospitals and to say that we will no longer provide a service in a locality. That is where the tension comes in. Consensus is hugely important; the more we can consolidate that over the next few years, the easier it will be to make those very difficult decisions.

The Convener: The final paragraph of your submission states:

“A preventative approach to long term housing supply may be set back as a consequence of competing social

policies at the UK level. It is COSLA's view that effective action to address longer term demographic challenges to housing supply requires not just adequate resources but consistent policies at all levels of government."

Are you talking about consistent policies at all levels of government over a long period? Will you be a bit more specific about the kind of consistency and policy that you are talking about for housing supply?

Councillor Johnston: Unfortunately, our housing spokesperson could not be with us today. Housing is not our particular expertise. We would be happy to get back to you with a detailed response. I am also happy for any of my colleagues to answer.

Ron Culley: A more general observation can be drawn from that. We want to work in a policy context that prioritises early intervention, prevention and shifting resources upstream. In that context, there is an element of longer-term planning.

The challenge of course is that public authorities—by which I do not mean just councils—are inevitably pulled back to dealing with the demands of service provision in an everyday context, which can militate against the idea of supporting early intervention and prevention. Some of the statutory duties that councils and national health service boards have require a certain type of behaviour, which can be at odds with the idea of using money flexibly to invest in the longer term. I do not think that there is an easy answer to that, other than to say that we need to strike a balance and to innovate.

In the past few years, we have identified things such as the change fund as a mechanism to do that. The committee will be aware that that work is on-going and is not yet concluded, and it has not conclusively shown the success of the venture. A balance will be important. We need to ensure that short-term pressures do not prevent more strategic long-term thinking.

The Convener: I have one more question before I open out the questions to colleagues. Paragraph 18 of your written submission states:

"Spending figures from the Scottish Government, projected to 2030, show the funding required for residential and home care for adults is set to increase at around three times the rate anticipated for NHS services."

Is that a plea for a rebalancing of some of the Scottish Government's financial allocations to local government relative to the NHS, or will the issue be covered by integrating budgets?

Councillor Johnston: From our perspective, it should be covered through the health and care integration agenda and the way in which the budgets are allocated. However, there are significant challenges for us. The figures speak for

themselves. It costs £300 to £400 a week to support someone living independently in their home, compared with about £4,500 a week for an acute bed in a hospital or about £500 to £600 in the current care home sector. People want to be supported in their homes. We believe that people can live independently and well in their homes and that that is where they want to be.

COSLA believes that, as yet, we do not have the best possible working relationship with the care home sector. For example, at present, we simply procure care—we simply buy places through the national care home contract—and we do not have the ability to shape the market. One of our key objectives is to move to community health and care partnerships having the ability to commission and shape care.

For example, if we are to reduce unplanned front-door admissions to the acute sector, there is an opportunity to do that locally by people going to a step-up facility rather than immediately from their home into an accident and emergency department. Likewise, if we are to meet the targets on delayed discharges, which present opportunities to release considerable resources, a different kind of commissioning in the care home sector would allow step-down facilities to be made available. Some such facilities already exist throughout the country. That is best practice, but it is not rolled out across all council areas. Through health and care integration, the opportunities to use budgets more effectively are there to grasp. We are looking forward to taking those opportunities.

Jamie Hepburn: In Councillor Johnston's opening remarks, he referred a number of times to the welfare reform agenda. As colleagues are aware, Michael McMahon and I have an interest in that through our membership of the Parliament's Welfare Reform Committee. Paragraph 10 of your written submission refers to

"financial pressures ... arising from welfare reform, which in turn will contribute to future pressure as a result of demographic change and an ageing population."

You continue:

"Welfare reform is likely to be another driver towards an older but poorer population with increasing needs on services."

Will you say a little more about that and what the specific impacts of welfare reform will be on local government?

Councillor Keenan: Every time that somebody comes to talk to us about welfare reform and gives us a bit more evidence or advice, we end up thinking, "That's another disaster we're walking into." Some of the pressures that might arise for councils will be on social care. The amount of money that is available through discretionary

grants, whether for housing or the social fund, is exhaustible. The funds are not never ending. We are starting to consider food banks and the like and how councils can support people. We have taken on more advice staff to try to help people to attract benefits if they are still entitled to them, to ensure that no one misses out.

Welfare reform makes a difference in housing. When someone gets universal benefit, will they pay their rent? That is a concern for social landlords as well as council landlords. Many aspects of welfare reform will make life difficult for individuals and they will look to local government to pick up the slack and provide support. That throws budgets in every direction.

11:45

Jamie Hepburn: You mentioned the social fund. Of course, we are getting the welfare fund, which has been put in place by agreement between COSLA and the Scottish Government.

I think that I am right in saying that figures were presented to the Welfare Reform Committee that suggest that, in the past five years—I cannot remember the figure, but I think that that was it—the amount that has been granted to the welfare fund has not been reached in the fund that it seeks to replace. However, you express concerns that the fund is not inexhaustible. Is your concern that the other changes that are made will increase demand on such funds?

Councillor Keenan: I think that they will increase demand among people looking towards such funds for assistance.

The pressures of the bedroom tax will be felt in housing. When we consider what housing need is or what it is likely to be, perhaps we will have to grapple with building three and four-bedroom houses, which are in demand, and still having a need for single-bedroom houses as we move forward. There are so many aspects that will make a difference.

Andy Witty: There is a raft of areas to do with welfare reform that cause concerns for local government, such as the impact that the move to universal credit and direct payments might have on people's paying of rent and council tax. Some small pilots down in England have already reported a reduction in rent payment once direct payments have been established. More pilots will happen before it is fully implemented, but that is an area of particular concern.

A parallel issue is that water payments seem to be getting preferential protection. The water direct scheme establishes a means not only to deal with debt but to prevent the most vulnerable people falling into debt on their water payments. However,

that same approach has not been extended to council rents and council tax, so it seems that water is being prioritised over other bills. It would be good to consider a more universal system and approach.

Another issue is the stopping of the council tax benefit and the reduction in moneys that come from London—the £40 million gap that was identified. Local government and the Scottish Government worked together and came to a one-year deal to prevent that from having an impact on the most vulnerable people, but it is only a one-year deal and we need to see what sort of solution we come up with for the longer term. Those discussions are still happening.

There are a number of particular pressures with welfare reform.

Councillor Johnston: My frustration is the lack of joined-up thinking. We are all committed to, and working towards, tackling health inequalities and implementing preventative spending but welfare reform is actively trying to dismantle what we seek to do.

For example, someone who is bringing up a family and who has a 25 per cent reduction in their housing benefit will have to choose between eating, heating their homes, feeding their children, buying family essentials and finding the extra money to pay their rent. That is an example of what we said about the focus being shifted from what we look to do—long-term investment in tackling health inequalities, preventative spend and early intervention—and the sudden need to firefight. It is such a pity that the agenda was not joined up, with welfare reform helping us to achieve the targets that we all seek to work towards.

Jamie Hepburn: You are not the first to point out that the welfare reform agenda cuts across a range of measures.

Councillor Keenan mentioned the possibility of having to consider the types of housing stock that will need to be provided in light of the bedroom tax—

The Convener: This session is not really about the bedroom tax; it is about demography and the ageing population. Try to keep your question on the theme.

Jamie Hepburn: I am trying to. Clearly, the issue of welfare reform has been raised. I recall that we have previously talked about how welfare reform will impact on the types of houses that will have to be built. That is what I was going to deal with, if that is okay.

The Convener: Stay focused.

Jamie Hepburn: I will.

Previously, it was suggested that registered social landlords are reluctant to build more one-bedroom properties. However, we have also been told that, as a result of demographic change—I am staying focused, convener—there will be more single-person households. That might lead people to conclude that we need more single-bedroom properties. Is local government likely to build more single-bedroom properties, or do you think that those properties do not offer enough flexibility?

Councillor Keenan: The debate needs to happen at some stage. Given that 3,300 people who rent a house from Dundee City Council will be affected by the bedroom tax, we will have to consider the housing investment that we make in the future and we might have to change the direction that we are travelling in. Registered social landlords are reluctant to invest at the moment because they are under cost pressures, which will increase if people receive universal benefit but do not pay their rent. A lot of things need to unfold in relation to welfare reform, and they will have an impact. People will present themselves to social work and advice services for benefits advice. Such things cause cost pressures in local government.

John Mason: There is an air of doom and gloom about a lot of this debate. Does COSLA have any feeling that the fact that people are living longer is good news? For example, people can work longer—I think you have made the point that people do not have to retire at 60 or 65 or whatever. Are there any other positives?

Councillor Johnston: People are living longer, but the key thing is to ensure that they live longer with good health. The agenda of supporting people to live independently and well in their own homes is positive, because that is where people want to be. Positive things are happening, but we need to tackle the glaring health inequalities that exist within the cohort of people who are living longer. A child born in the Ladywell area of Livingston—which I have represented since 1985—can expect to live 11 years less than a child who is born on the same day just 10 miles up the road in the leafy suburbs of Murieston. That is not acceptable. We have to accept that we have to tackle that agenda. It is not that there is an air of doom and gloom; it is that we are being realistic and focusing our attention on the problems that we need to solve.

John Mason: In the short to medium term, is there any scope for reducing the inequalities, or do we have to accept that we are involved in an extremely long-term project in terms of the big gaps in the life expectancies in different areas and in terms of the fact that, for example, for men in my area, unhealthy life expectancy is a lot shorter than actual life expectancy?

Councillor Johnston: It is a bit of both. There are opportunities to make significant changes in the quality of people's lives through early intervention, and some measures are under way. For example, there is a project in Armadale that is being run through the West Lothian community health and care partnership that aims to tackle obesity in young children. That will hopefully have an immediate early impact.

We must recognise that tackling health inequalities requires a consistency of approach and a consensus that will take us through—we should avoid being distracted and changing course. It will take time to get the benefits, but we think that the prize is worth working towards.

Ron Culley: The doom and gloom point is important. There would be concern if public authorities were articulating a dispiriting view of the world, but that is not what we are trying to do. We have a very positive message regarding the policy agenda that we are pursuing, particularly on the way in which people can live into their old age in a healthier way.

The other element is our vision of communities, which is that of a more vibrant, better-connected community infrastructure, with greater capacity for people to be sustained with the help of friends and neighbours and so on. All of that is hugely positive. The challenging aspect is that of public finances and how to support that infrastructure. That is where things are more doom and gloom, frankly. The aim is to balance all those things.

Councillor Keenan: Earlier in the meeting, John Swinney gave an answer on people in employment and the realisation that things fell to pieces a bit in 2008. The game changer for us now is welfare reform. In Dundee, for example, it looks as though the amount of money that will be coming out of local communities will be anything from £14 million to £28 million—that will affect families big style. It will make a difference to the quality of food that people can buy, and to their ability to make choices about whether to put the heating on, feed the kids or feed a drug habit, if that is how bad things are. That game changer leads us towards a bit of doom and gloom.

However, a lot of positive work is going on in local government to make a difference and make changes.

John Mason: You and others have mentioned a shift of resources to early years, upstream or whatever we want to call it. Welfare reform, which you have just mentioned, probably makes that more difficult. Does the shift have to be linked to health services, social care and other local authority services? Is it possible to shift resources within local authority services from the more acute

services for elderly people to those for younger people?

Ron Culley: There are two elements to that. Resources can be shifted laterally within a defined population group. For instance, within local authority provision for care and support for older people, we would like a greater proportion of our finance to be spent on supporting people at home as opposed to in care homes. That lateral shift can happen within a defined population group.

There is then an intergenerational question, ultimately, about our relative priorities expressed in terms of early years versus older people. Inevitably, it is a question of balance and the extent to which we can channel investment upstream into early years while being faithful to the agenda that we want to pursue for other parts of the population. It cannot be all or nothing.

Councillor Keenan: Considering the extremes within Dundee's budget, we have 600 or 700 looked-after children and an ageing population, so we need to put money into the social work budget to cope with that. A lot of the work that is going on in local government aims to make a difference to the educational outcomes of looked-after children and to deliver them into employability at a later stage. There is a big focus on that, but a real cost pressure. A lot of great work is going on, but more people might present themselves.

John Mason: You make the point about having people at home rather than in care homes. The question was posed earlier: can local authorities shape care homes? I think that Glasgow City Council is in the process of building five large care homes, presumably so that it can shape what happens. Is that common throughout Scotland, or is it unusual?

12:00

Ron Culley: It is still relatively unusual. Local authorities are increasingly going the other way and divesting themselves of responsibility for direct provision within care homes. We have only about 15 per cent of the total market now. That is why the relationship with the private sector is hugely important.

We want to progress an agenda that envisages an arrangement whereby the commissioning agendas of health and social care partnerships become the bedrock of how we shape the local care home market. It is difficult to do that just now. Care home providers often build speculatively, without necessarily having had discussions with local authorities beforehand.

We have not been able to innovate as much as we have in other sectors with respect to care homes, so they still provide a very traditional

service. We want to change that in the future. There is a change agenda, but we have not gripped it strongly enough yet.

John Mason: Are local authorities not involved because they do not have the resources or because they choose not to be involved in that area?

Ron Culley: It is a mixed picture across Scotland. It is certainly true that providing in-house care is more expensive than procuring care from the private or voluntary sector. The national care home contract rates are less than the rates that local authorities would have for in-house provision, so there is an economic advantage, from a council's perspective, to outsourcing that care. However, there is a wider question about the priorities of individual councils in that respect, and that is why there is a mix.

You mentioned Glasgow. Other authorities have completely divested themselves of care homes—Dumfries and Galloway, for example, has none. It is a mixed picture across Scotland, but in general terms it is a very small proportion of the overall market.

John Mason: There is a variety of housing as well—the committee has had quite a lot of evidence on that topic. Do we just need more mainstream housing or do we need more very sheltered housing and, if so, how do we deliver that? Is there a COSLA view on that or should we accept that we need a bit of everything?

I realise that your housing spokesperson is not here.

Councillor Johnston: Thank you for making that caveat for us.

Ron Culley: We were keen to ensure that the housing strategy for older people, which you may have seen, was closely aligned to the work on reshaping care for older people, because people need a continuum of care and support that runs from acute hospital provision right through to their housing requirements as they enter older age.

We thought that it was important that local authorities and partners were fully equipped to plan effectively through housing needs assessments and to align those planning mechanisms to the commissioning agendas of health and social care partnerships. In other words, we need to ensure that there is a strong fit between the housing sector and the health and social care agenda in the future. We will have to work continually on that.

Inevitably, some of this comes down to how people choose to live their lives. Do we anticipate, for example, that as people enter older age, they will want to downsize—choose different types of housing? That is perhaps true for some, but

ultimately we need to give thought to the importance of individual choice within that arrangement and to factor that into the housing needs assessment process.

It is difficult to answer the question in the abstract. It has to be grounded in a local needs assessment, which most partnerships will undertake.

John Mason: Is there a good relationship with the third sector, including housing associations? We have been given the impression that the relationship is perhaps a wee bit patchy across the country.

Ron Culley: In general, we have an improving relationship. It has not always been as strong as it could have been, but certainly in the past few years there has been an increasing policy focus on bringing the housing agenda closer to the health and care agenda. That has only improved the dialogue between the third sector and the statutory sector.

John Mason: You mentioned universal benefits in your comments. Does COSLA have a view on universal benefits and where we should be going with regard to them?

Councillor Keenan: We have made the case to ministers that, if someone was in difficulty, we would like the rent to be paid directly to the local authority or the registered social landlord, as we feel that the potential exists for—

John Mason: By “universal benefits”, I meant services that are not charged for as opposed to services that are charged for. Did you think that I was referring to universal credit?

Councillor Keenan: Yes—sorry.

Councillor Johnston: We would argue that there must be a balance between universal benefits and more targeted initiatives. For example, the preventative and early intervention agendas would best be used in a targeted and focused way, but we accept that universal benefits have advantages. We are arguing that we would like a discussion to be held about how to strike the best balance.

John Mason: There has been quite a lot of debate in Parliament and, I guess, among local authorities on the issue. You would not go as far as to suggest that we should charge people for being in hospital or anything like that.

Councillor Johnston: Absolutely not.

Councillor Keenan: We need to look at the debate in light of the fact that local authorities face a 3 per cent cut in their budgets, so the challenges will become much more difficult as we move forward. We will need to have a debate on the issue at some point.

Ron Culley: It is not the case that we have not thought about the issue, but we have focused our work on it on process rather than substance. In other words, we have not looked at a suite of universal benefits and said, “That one’s good but that one can go.” We have said that we need to think about a process that local authorities and their partners can go through and which we can pursue with the Scottish Government in respect of the correct balance to strike between universal and targeted benefits in more straitened economic times. We want to have that conversation and we have pressed to have it; it is just that we have not got to the position of identifying the relative value of different universal benefits.

John Mason: But you will do that at some stage. At that point, might you put into the public domain which universal benefits you think are good and which ones you think are bad?

Ron Culley: We will take forward our discussions with the Government on that.

Councillor Keenan: Our discussions with the Government are about how best we focus and target our efforts. We also discuss the cost pressures that local government is under. We do that fairly regularly, in the hope that our case does not fall on stony ground and that John Swinney manages to come up with a pocket of money for us at some point. However, we realise that we must keep identifying where we see the cost pressures being in local government and putting that case to ministers so that we can make a difference.

Andy Witty: The whole issue of universal benefits, along with all the other cost pressures and funding aspects for local government, will be a topic of debate when the next spending review discussions start.

Councillor Keenan: I suppose that we have to be realistic. We would always like things to get better, but we realise that we are going through difficult times and that difficult choices need to be made.

Malcolm Chisholm: That was really interesting.

Like the convener, I am working from COSLA’s second submission, which, as Ron Culley did in his opening remarks, raised the issue of the Dilnot review in England. That is interesting because, if something like the Dilnot solution were imposed on top of free personal care, we would end up with a lot more public expenditure, whereas the tenor of your argument is that we have too many cost pressures already. I am curious about why you threw Dilnot into the pot, unless you have a hidden agenda of getting rid of free personal care.

Ron Culley: Is that a leading question? [Laughter.]

I mentioned Dilnot because, regardless of whether you agree with his conclusions—incidentally, I did not purport to endorse the recommendations that he put to the UK Government—he has established a review of demographic change and the future funding requirements of social care, which we definitely need to pursue.

We do not necessarily have a view on what the conclusion of that process should be, but we have a view on the need to discuss how we pay for care in our older years. The danger is that we think of demographic change as tomorrow's problem. As the committee will know from the evidence that it has taken, we have dealt with the issue over the past decade. However, although we now have 50,000 more older people in Scotland than we had 10 years ago, there has not been a concomitant increase in resources to deal with that.

One implication of that has been that our demand management has had to be much firmer. Over the past decade, the number of people in care homes and receiving care at home has decreased in absolute terms against the rising population. We are concerned that, unless we address the perceived funding gap, demand management will have to become much stricter and more robust—indeed, more aggressive at times—to ensure that at the end of the day the books balance. That is not a vision that we want to pursue; we want to be able to support the entire population of local communities in living rich and fulfilling lives, but our worry is that, unless we address the longer-term funding question, it will become increasingly difficult to realise that aim.

Malcolm Chisholm: In paragraph 21 of your second submission, you say:

“COSLA is currently working with the Scottish Government and other partners to refine our understanding of the size of the funding gap for health and social care services into the future.”

What does that work consist of? How far can you refine that understanding? After all, much will depend on the models of care that you can establish.

Ron Culley: Absolutely. A lot of that will be based on assumptions for profiling demand into the future. The group that is mentioned in that part of our submission, which has met a couple of times and comprises a range of individuals including health economists, will allow us to gauge from projections that are based not just crudely on the change to the population's age structure but on changes to healthy life expectancy and so on the gains that we might see from integrating health and social care.

That is an important piece of work, but no one thinks that, in itself, it will make the funding gap

disappear; the gap will still be there and will still need to be addressed. The longer it remains unaddressed, the more difficult it will be to fund the types of early intervention and prevention that we want to support.

Malcolm Chisholm: That is interesting. When the cabinet secretary gave evidence to the committee, he concentrated on integration, which will obviously deliver benefits.

In your submission, you say:

“emergency admissions”—

which were the other big issue that we explored—

“and delayed discharges are not the only, or even the most important, problem which integration needs to address.”

I suppose therefore that the third element that you are flagging up in your submission and in your last comment is improving healthy life expectancy. You might have seen the table in our report that suggests that, even if every extra year of life was healthy, there would still be significant increases in cost. No matter how much we manage to do things differently and ensure that more people get, say, continuous care in the community at home and more years of healthy life expectancy, will there inevitably be large cost increases?

Ron Culley: Yes—and if you canvassed opinion from local government and the NHS, you would get the same answer from both. They would both say, “We will work awfully hard to make all these interventions and deliver a new integrated model of care but, ultimately, a public finance question needs to be addressed.” That will not be terribly easy for local government or the NHS to do; after all, it falls more within your territory than ours.

Malcolm Chisholm: That comes back to Councillor Johnston's point about keeping people healthy, and I suppose that we do not know the extent to which we can succeed in that.

Another related question that some have raised is how much money an ideal model of care—I know that West Lothian has certainly been a pioneer of integration in housing and other areas—will save. There seems to have been consensus for the past decade on what we would like to achieve for continuous care in the community. However, I think that the Royal College of Nursing said that that would not save as much money as we think. How much money could it save?

12:15

Councillor Johnston: We do not have sufficient evidence to answer that question. Clearly, the difficulty will be that many of the resources that would be freed up would have to transfer from the acute sector. We still have some

way to go towards securing the shift in the balance of care from the acute sector to the community.

As I said, it is difficult to answer your question at present, but there is consensus that preventative spending and early interventions are the way to go. The quantum that they release will be determined by how successful our health and care partnerships are. We are not giving the message that sorting out delayed discharges or reducing unplanned admissions to A and E departments is not important, because that is important and will release resources. However, until we get engaged in that and begin to deliver the release of the resources, it is not easy for us to put a figure on that.

Malcolm Chisholm: I will not ask about housing, because your housing representative is not here. I suppose that the only general question about housing that would apply to the health and social care people is about the extent to which housing is built into the current integration agenda. A criticism of the initial consultation paper was that housing was not sufficiently covered and involved. Has that been rectified since then or is there still an issue about whether housing is sufficiently built into the integration agenda, which will obviously be important for us over the next few months?

Ron Culley: We have probably reached the right decision on the formal integration of health and social care, which speaks to NHS services and councils' adult social work services. However, housing is obviously very important. We probably envisage that issue being advanced in the context of joint strategic commissioning processes. We need to ensure that linkages are made between our assessment of need in a local population, the types of health and care services that we want to support in that context and the types of housing provision that will support that agenda. In truth, we are making some progress in bringing the housing community into that discussion.

I do not think that the housing issue has been formally adopted into health and social care partnerships. There are some funding issues regarding why the housing budget cannot be formally pooled with the health and social care budget. However, I agree that the commissioning agenda must ensure that there is an integrated approach that goes beyond just health and social care.

Councillor Keenan: In Dundee, a great deal of joined-up working happens between social work and housing. Because there are many people in social housing with social work needs, there has to be that level of joined-up working. I am sure that, in that work, thinking is going on about outcomes and future need.

Jean Urquhart: A number of questions that I had have been answered. Councillor Johnston referred in his opening statement to examples of innovation in preventative spending. How do we change the culture in the country from one that fears getting old to one that regards it as a positive experience? Most of us are looking forward to it, because we have to. *[Laughter.]*

There are examples across the country of really good practice, in which different local authorities address different problems in different ways. How do we share that best practice? The good practice in some parts of Scotland is unknown to other parts of the country. We could definitely benefit from asking how we can create a positive culture about people growing older.

Another issue that I want to ask about is academic research, which I am always pounding on about. A number of universities have research students looking at demographics, but our academic institutions seem quite far removed from COSLA and sometimes from local authorities. There are examples of really interesting work being done. Sometimes we can keep older people out of hospital through different activities. Loneliness makes people ill—common sense tells us that, too.

How much of our preventative spend are we proactive about putting into the poorest areas, where it is often needed most? Do we positively discriminate? The report talks about Scotland being the worst country in western Europe when it comes to longevity and the health of our older population.

Councillor Johnston: You covered a range of topics there.

The Convener: It would be easier if you asked your questions one at a time, Jean.

Councillor Johnston: I will try to answer them and, if I cannot, Ron Culley might be able to fill in the gaps.

On innovation, you are absolutely right that there is lots of good practice across local authorities, such as reablement schemes, where social care staff are actively involved in helping people to live healthily and well in their own homes after they have come out of hospital having had a fall or whatever. Those schemes do what it says on the tin: they allow people to gain confidence and get back to living independently and well.

With advances in technology, there is now the opportunity to use technology to help support people in their own homes. There are lots of innovations in that regard. Telecare systems across Scotland are fairly well known, but there is also the opportunity to create virtual wards, where people are cared for at home and have their vital

signs monitored through technology, rather than being taken into hospital. As you would expect, COSLA looks to share that best practice to make our fellow councillors aware of it and to roll it out.

I turn to Jean Urquhart's 13 other questions. Do you want to help me think, Ron?

Ron Culley: It is not just COSLA that works with our member councils. We have a fairly well developed improvement infrastructure through the Improvement Service and the joint improvement team. Both those organisations could offer excellent examples of practice that is shared across the local government and health community so that we can begin to learn from each other. You are absolutely right to say that that should continue to be a priority.

Another element of Jean Urquhart's questions was the academic interface. The improvement community—probably more than COSLA, in truth—would engage with the academic community to take the learning in institutions into a practice-based environment. Some institutions straddle academia and practice. The Institute for Research and Innovation in Social Services is a practice-based academic body that looks to filter such information through to local partnerships, so there is quite a well-developed structure. You are right that COSLA probably does not interface as much as we might with the academic community, but that is because we know that others are doing so and because that is not necessarily our role.

Councillor Johnston: Jean Urquhart asked whether we prioritise areas of deprivation. Across local authorities, work will be taking place to do exactly that. You will have heard me say that it is fundamental for the emerging health and social care partnerships to have a community health profile that is evidence based, which will be used to commission and deliver services to meet the needs identified by such a profile. That would go a long way to helping us tackle much more effectively the health inequalities that exist.

Councillor Keenan: Before we came to the meeting, Peter Johnston told me about the breakfast clubs in his area. Free breakfast clubs have been targeted at schools in areas of multiple deprivation and, obviously, people are looking at how that makes a difference to the children in those areas. I know from having previously been an education convener and having gone around that teachers have said, "I would pay for the breakfast myself, because at least the child will learn if they are not hungry." If a child needs something to eat but has to wait until lunch time, that will be too late and a shift will be missed at school instead of the learning process going on.

There is a lot of good work. Local government is looking at how positive discrimination can make a difference to health and inequalities.

Jean Urquhart: Finally, do you think that we are really increasing that work? That people in poor areas die younger is not new, and we are seeing no shift in that. Councillor Johnston mentioned two areas of Livingston as examples, but we all have such examples.

Councillor Johnston: We are arguing that, in times of plenty when resources grew substantially, such as the previous decade, we did not make the inroads that we potentially could have made, so things will be more challenging when resources are declining. By doing things differently and recognising that prevention and early intervention are the way ahead—I am sorry to repeat that—we can begin to tackle health inequalities more effectively.

Ron Culley: We have not discussed in detail the reform of the community planning infrastructure. That will be important in allowing us to take that agenda forward. In the past, our statutory organisations and others came to the community planning table essentially with preset agendas, and there would be a bit of chat around the table about working together in partnership.

We envisage that, in the future, the community planning partners will come to the table with their resources and ask how, in response to the local population's needs, they can spend those resources more effectively to target the issues that have been raised relating to deprivation and so on. That was a key feature of the Audit Scotland report on health inequalities. The reform of community planning to create stronger and more robust community planning partnerships will empower them to work with communities to deliver the improvements that we seek.

The Convener: I thank colleagues very much for their questions and thank all our witnesses for answering our questions.

On 6 March, the committee agreed to take the next agenda item in private, so I now close the public part of the meeting.

12:28

Meeting continued in private until 12:52.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice to SPICe.

Available in e-format only. Printed Scottish Parliament documentation is published in Edinburgh by APS Group Scotland.

All documents are available on
the Scottish Parliament website at:

www.scottish.parliament.uk

For details of documents available to
order in hard copy format, please contact:
APS Scottish Parliament Publications on 0131 629 9941.

For information on the Scottish Parliament contact
Public Information on:

Telephone: 0131 348 5000
Textphone: 0800 092 7100
Email: sp.info@scottish.parliament.uk

e-format first available
ISBN 978-1-78307-583-6

Revised e-format available
ISBN 978-1-78307-599-7