The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Wednesday 29 February 2012

Session 4

Wednesday 29 February 2012

CONTENTS

FINANCE COMMITTEE
7th Meeting 2012, Session 4

CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

DEPUTY CONVENER

*John Mason (Glasgow Shettleston) (SNP)

COMMITTEE MEMBERS

*Gavin Brown (Lothian) (Con)
*Mark McDonald (North East Scotland) (SNP)
Michael McMahon (Uddingston and Bellshill) (Lab)
*Elaine Murray (Dumfriesshire) (Lab)
*Paul Wheelhouse (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Professor David Bell (Adviser)
Angela Cullen (Audit Scotland)
Ron Culley (Convention of Scottish Local Authorities)
David Dorward (Society of Local Authority Chief Executives and Senior Managers)
John Downie (Scottish Council for Voluntary Organisations)
Dr Laurence Gruer (NHS Health Scotland)
Paul Johnson (Institute for Fiscal Studies)
Mark McAteer (Improvement Service)

CLERK TO THE COMMITTEE

Jim Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Wednesday 29 February 2012

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

United Kingdom Budget

The Convener (Kenneth Gibson): It has gone time, so good morning and welcome to the seventh meeting in 2012 of the Finance Committee of the Scottish Parliament. I remind everyone to turn off mobile phones, pagers and BlackBerrys. We have received apologies from Michael McMahon, who is unwell and unable to make it to the meeting.

The first item on our agenda relates to the United Kingdom budget, which is due to be published on 21 March. I invite the director of the Institute for Fiscal Studies, Paul Johnson, to make a short opening statement before we move to questions.

Paul Johnson (Institute for Fiscal Studies): Thank you very much for inviting me to this morning's meeting. I want to say a few words about "The IFS Green Budget 2012", which we produced just under a month ago. As you probably know, the IFS is an independent economics research institute and has, for about the past 30 years, been publishing what it calls its green budget—"green" as in "green paper", rather than in the environmental sense—to set the scene for the Chancellor of the Exchequer's budget. Unlike most legislation, there is no green paper or consultation before the budget is announced, so our intention is to try to put into the public domain information and analysis to help discussion of it.

The IFS has always worked with a group of macroeconomists on the macroeconomic forecasting in the green budget, because that is something that we do not do ourselves; this year Oxford Economics produced those chapters. I will not say anything about those this morning.

However, I want to speak for a few minutes about the work that we do that relates to the public finances and about some of the specific decisions that we expect the chancellor to make. The background to the budget includes the long-standing fiscal difficulties and, more recently, the Office of Budget Responsibility's very substantial downgrading of the economic growth outlook—and therefore the public finance outlook—back in November. At that time, the OBR downgraded its view on the long-term trend, growth and capacity of the UK economy by 3.5 per cent of national income into the medium run—in other words, in November, it thought that the UK economy was capable of being 3.5 per cent smaller than it had thought back in March that it would be. Given that 3.5 per cent of national income equates to around £50 billion a year, the OBR's view of the potential trend output of the UK economy has changed very substantially in a short time. Given that and our position back in March, the current view of the potential long-term trend of the UK economy is that annually it will be 13 per cent smaller than was thought in March 2008—that is, we have lost more than £200 billion a year of output relative to where we were expecting to be just four years ago. That is the backdrop to our current difficult fiscal situation.

As a result of the cut in the view of what long-run trend output will be, which was given in November, it is felt that more needs to be done to get the fiscal books back in balance, and although in November the chancellor did not announce any change in his plans for the next three years, there will now be two further years of tight public spending cuts, in 2015-16 and 2016-17. The total fiscal tightening that the chancellor now plans is of the order of £123 billion. That represents an additional £30 billion of fiscal tightening on what he planned back in March. Even on top of unprecedented times, the difficulty of achieving what he wants to achieve has increased substantially just over that short period. As I said, he did not respond to the bad economic news with further tightening now; he has responded by pencilling in tighter plans after 2015, but has told us nothing about where those spending cuts might take place.

When we put that together with the existing plans, 80 per cent of the £123 billion of tightening is planned to come from spending cuts and 20 per cent of it is planned to come from tax increases. Spending cuts at that level are unprecedented—I will use that word many times. Between 2010 and 2016, we will have seven years of real cuts year on year. We in the UK have never had more than two years of year-on-year real cuts in public service spending. When I talk about public service spending, I mean current spending on health, education and defence and not spending on social security or debt interest, which I treat separately. It is worth being clear that only £1 in every £10 of planned cuts has yet occurred, so 90 per cent of the cuts are still to happen. We are not some significant distance through implementing the spending cuts—we are only in the foothills of implementing them.

As I said, these are extraordinary times and dramatic changes, but it is worth putting them into a little bit of context from the years up to 2008. In the current period, we will have seven years of the biggest cuts that we have had since the second world war. In the period up to 2008, we had seven years of the biggest increases since the second world war. On current plans, public service spending in 2017 will in real terms be about where it was in 2004. As a proportion of national income, it will be about where it was in 2000. In that sense, we will not be taken back to the dark ages; we will be taken back to where we were not terribly long ago.

That is not to say that the changes will be anything other than extremely difficult to achieve. That is much underestimated and underdiscussed as part of the broader fiscal situation. As I said, we looked back at history in the UK, but we also looked at Organisation for Economic Co-operation and Development countries over the past 30 years. We have, until now, not seen changes on the proposed scale in the UK's history or in any OECD countries in the past 30 years. It is clear that a small number of countries, such as Greece and Ireland, are doing something pretty dramatic at the moment, but these are remarkable times in history.

We look in a little detail at the breakdown of the spending cuts: where will they fall and how does that relate to what happened in the years up to 2008? The direction of travel in the current period is obviously different, but it is striking that the relative prioritisation is extremely similar to the relative prioritisation of spending in the years before the crisis. Of the significant budgets, the biggest winner in the years before the crisis was health. Health is the only major budget to be protected at England level in the current spending review period. Education spending in England went up roughly in line with average increases in the period to 2008, and the same is true of the cuts in the current period.

Spending on defence, law and order, housing and so on went up less quickly than the average up to 2008, but spending in those areas is being cut more quickly than the average over this period. There is a remarkable degree of consistency in terms of relative prioritisation.

On the immediate fiscal forecasts, in the context of these very large numbers and an OBR expectation of a deficit of £124 billion this year, our view is that it looks like the news might be marginally less bad than the OBR thought in November, essentially because it looks as if departments are slightly underspending their budgets this year. Although budgets are tight this year, it looks as if there has been some additional front loading of cuts relative to what is in the budget. Our best guess is that spending and borrowing this year will be something like £3 billion less than the OBR predicted, but that is without taking account of any end-of-year splurge on spending that departments might decide to do.

Over the medium term, in the period to 2016-17, our estimates are that tax revenues might be a little higher than the OBR is expecting, and we might have something like a £9 billion cushion relative to OBR expectations by 2016-17. In ordinary times, we would think that £9 billion was a reasonable amount of money and there might be a case for some medium-term fiscal loosening, but the level of uncertainty at present is much higher than in normal times, and £9 billion out of £120 billion is a relatively small amount.

Oxford Economics produced a range of macroeconomic forecasts, and we considered what their public finance consequences—the risks, essentially—would be. Although the central forecasts are relatively similar to what the OBR expects, and the fiscal consequences are relatively similar, they put a substantial probability—less than 50 per cent, but certainly considerably more than 10 per cent—on things going very wrong in the euro zone. If that happens, the consequences for the UK economy under Oxford Economics's modelling, and indeed most other people's, will be pretty grim. Its modelling shows that we would go into recession this year and next, and that the fiscal forecasts would be blown out of the water, essentially. We would not have national debt peaking at about 80 per cent of GDP, but at well over 90 per cent of GDP, and we would inevitably miss the chancellor's fiscal rules by a long distance. Indeed, I do not think that anyone would expect him to keep to his fiscal rules were something of that magnitude to happen; the previous UK Government ditched its fiscal rules after the financial crisis. There are substantial risks on the downside, which we have examined.

On what needs to happen on the fiscal situation, the most important thing—this sounds like a terribly nerdy and processy point, but it is a desperately important one—is to have another spending review by the end of next year. We say that for three reasons. First, the previous spending review was, of necessity, done swiftly, and some big decisions were taken. There is a strong case for looking back and reviewing and evaluating those decisions and determining whether they remain the correct and most effective and efficient set of priorities.

Secondly, as I said earlier, the chancellor has pencilled in substantial cuts for 2015-16 and 2016-17 without saying what they will be. It would be easier to plan for them if departments knew at least a year before they happen what the cuts are likely to be. It is important to put that knowledge in place.

The third point is something that I have not talked about today, but we say a little more about it in the green budget. There will be continuing long-term pressures on public spending that will go beyond the resolution of the current crisis; those pressures are a result of demographic pressures, particularly on health and pensions, and potential reductions in tax revenues, in particular from petrol. All of that means that pretty major strategic, and substantially bigger, new decisions will need to be made about the shape of the state and public spending.

I could blather on and on, but I will stop at that point. I should say, though, that we have also covered in the document a range of issues—which I am happy to talk about—around tax policy, child benefit policy and other aspects of spending, as well as public sector pay and pensions policy.

10:15

The Convener: You may say that you could blather on but, unknown to you, I have a button on my desk, and there is a trapdoor under your chair.

Thank you very much for that very interesting and informative statement and for providing us with a summary of the green budget. I am very interested, as I am sure colleagues are, in its content. You have already answered some of my questions, but I have plenty of others—as, I am sure, colleagues do.

You spoke strongly in your opening remarks about the situation to which the chapter 3 summary refers when it states that by the end of the current financial year

"73% of the planned tax increases will have been implemented."

The summary goes on to state that only 12 per cent of the cuts will have been implemented by the end of the financial year. It also states:

"The impact of the remaining cuts to the services provided is difficult to predict".

The summary of chapter 3 ends with the statement that

"further tax rises or welfare cuts would be needed to reduce borrowing as currently planned."

You talked about public spending levels going back to those of 2004-05, but in closing you also talked a wee bit about demographics. Although the spending levels might go back to those of 2004-05, the demographic picture has surely changed quite considerably in the past few years because of the general ageing of the population and there probably being more older and frailer people who are dependent on services. Although the amount that is being spent may be similar to that of 2004-05, there is that demographic factor to be taken into account.

The question that I want to ask is about what we do going forward. Your chapter 4 summary states that

"weaker economic growth than forecast by the OBR is partly offset by a higher oil price and greater North Sea oil and gas production."

It goes on to say that

"A cut to the main rate of VAT, a reduction in employer National Insurance contributions and a boost to investment spending plans all seem sensible choices for a temporary fiscal stimulus package, were one deemed necessary."

Given that you talk about national wealth falling by 13 per cent over the piece relative to the pre-recession era, and given that we are in a difficult economic position, do you think that at this stage a fiscal stimulus is justified? Should some of the £3.3 billion departmental underspend that your report mentions be used to do that? Should there be the measures that you described, such as a cut in VAT, to boost construction? What is the IFS's view on the issue?

Paul Johnson: There are two important points, the first of which is that there is a very important difference between a medium-term loosening and a short-term stimulus. We are reasonably cautious about suggesting that there should be any kind of medium-term loosening, particularly given the fiscal rules that the chancellor has set himself, because of the scale of the uncertainty. My guess is—this is probably appropriate—that the chancellor will wait to see how those things unwind before deciding what to do in the years from 2015. Essentially, that is what he did in the autumn.

You can certainly argue that what happened in the autumn was a fiscal loosening, because over this year and the next the automatic stabilisers will effectively have been allowed to go ahead and the amount of borrowing has gone up significantly. That represents a degree of fiscal loosening in the short run.

What we say in the document, and what we believe, is that if you compare where we are this year with where we were last year, there seems to be a stronger case for a short-term fiscal loosening. The main reason why is that the economy is significantly weaker than it appeared to be last year and it is certainly weaker than it was predicted to be last year. Indeed, the monetary policy committee minutes from last February show that members voted for interest rate increases, and that there was a fairly clear consensus among macroeconomists that interest rates would rise quite significantly towards the end of last year. It is clear that that did not happen, and that is not now on the agenda. The risk that a short-term fiscal loosening would result in a short-term monetary tightening therefore probably no longer exists.

That must be weighed up against the risk to interest rates on Government debt. The Government needs to issue £750 billion-worth of debt over the next five years, which is a lot of money. In the UK, we have pretty long-term dated debt, but £750 billion is an unprecedented amount to put on to the markets over the next five years.

In a rather unhelpful way, we have set out those arguments and said fairly clearly that we are pretty agnostic on whether there is a case for a short-term loosening of, say, 1 per cent of GDP. The risks can be weighed up, and people argue vehemently on both sides, but doing that or not doing it involves a very close judgment. One can see the arguments for either judgment.

If fiscal loosening is to be done, it seems that three things are needed. First, it needs to be timely, as one would want to impact quickly on the economy, and only a relatively small number of things can be done that would do that quickly. Secondly, it needs to be targeted on things that are likely to impact on economic growth, and thirdly, it needs to be temporary or short term.

Broadly speaking, it seems that there are two or three approaches that would be timely, targeted and temporary. On the spending side, investment spending could be increased, particularly on roads and housing, because investment spending on them can get going relatively quickly. Plans exist and have been shelved, but can be unshelved relatively fast. On the tax side, temporary changes to employer national insurance contributions and the VAT rate might have a positive effect.

I do not have a strong view either way on whether there should be short-term loosening. The arguments in each direction and the risks are relatively clear. In the end, a pretty balanced judgment is involved.

The Convener: The summary says that chapter 8, "Tax reform and growth",

"focuses on reforms that could increase national income in the medium term, not on possible short-term stimulus to promote economic recovery."

A couple of quite intriguing sentences follow that in the same paragraph. They are:

"There are many welfare-enhancing reforms to the tax system which should be pursued even if they don't promote growth. And there are growth-promoting but welfare-reducing reforms which should not be pursued."

Will you explain that a wee bit more and give us a couple of examples?

Paul Johnson: I would love to. Economists are often rather unfairly tarred with the view that all they worry about is money. The truth is that, from one's first lecture in economics, one is taught to worry about welfare, although economists often forget that. There are things that the tax system does that reduce welfare but do not necessarily impact on growth. I will give members one example. Stamp duty on houses probably has some economic impacts, as it probably reduces labour mobility to some extent, but the big thing it does is make it very expensive for an elderly person with a big house to trade down while a younger person with a growing family wants to trade up. They both have to pay tax in order to do that, which reduces the number of transactions that occur and will make each of those people worse off. That is a welfare cost that does not necessarily have any effect on the economy. Stamp duty could be changed or be got rid of, which would make people better off in respect of their welfare but would not make a difference to the growth of the economy.

Growth-promoting policies that would not necessarily be good for welfare can also be thought of. The complete abolition of the old-age pension would probably promote growth. That would effectively force a lot of older people to work, which would probably be good for growth, but it probably would not be very good for their welfare. Obviously, that is an extreme example.

The Convener: I was hoping for a more practical suggestion.

Paul Johnson: The example gives a very good illustration of why it is appropriate that we do not pursue growth at all costs.

The Convener: Indeed.

Chapter 9 refers to the 50p income tax rate. The summary of the chapter states that

"It is important not to fixate just on whether any revenue is raised"

and adds that

"there might well be better ways of raising a similar amount of revenue from a similar group of people."

Can you elaborate on what those "better ways" might be?

Paul Johnson: On the first quotation, it is important to understand the 50p rate. The Treasury forecast is that it will raise about £2.5 billion a year, which we think is probably a little on the optimistic side, although it is certainly well within the bounds of possibility. However, the forecast of £2.5 billion already assumes behaviour change that will lose the Treasury £4 billion a year. Were the 50p rate to be introduced but nobody changed their behaviour, it would raise £6.5 billion. A very substantial cost from avoidance, evasion, moving abroad or whatever is already built into the figures, so it is a relatively costly way of raising tax. If the policy raises £1, that does not make it a good policy relative to the same policy that loses £1. Other things beyond the revenue matter.

A number of aspects of the tax system do not work terribly effectively in terms of raising additional revenue from people of high wealth and people on high incomes. First, despite recent reforms, capital gains tax is still charged at a much lower rate than, in particular, the highest rate of income tax, and it provides a very obvious route to avoidance of the 50p tax. There is a lot of complexity around capital gains tax and, in particular, its potential impact on savings and investment decisions, but our view is that there are ways of aligning the rate of capital gains tax with the rate of income tax while providing allowances against normal returns.

Our inheritance tax system does not work terribly well, for example in trying to get at those who are lifetime wealthy. There are obvious opportunities, for someone who has enough money, to pass on the money before they die when no tax is involved, and it is perfectly legally to avoid inheritance tax through buying farms or unquoted businesses. If you really want to increase revenues from that group, there are routes through the reform of inheritance tax.

It is also the case that, for people who have very expensive houses, housing is undertaxed through the council tax system. A standard neutral system, as it were, on the consumption of housing would be to have a tax that was directly proportional to the value of the house. In fact, the council tax rises much less than proportionately with the value of the house; that situation is, of course, on average much more valuable to people who have expensive houses and high lifetime incomes.

I do not pretend that any of the proposals are politically straightforward, but each of them would improve the efficiency of the tax system and would be a way to increase the amount of tax payments from those who are lifetime wealthy.

Mark McDonald (North East Scotland) (SNP): The convener highlighted your identification of greater North Sea oil and gas production as offsetting the OBR estimates. Yesterday, a fairly scathing report from Oil & Gas UK indicated that North Sea production dropped by almost 20 per cent last year. Has that been factored into your calculations?

Paul Johnson: I think that that comes directly from the Oxford Economics forecast of how the economy and world oil prices will move, so I am afraid that I am probably not the right person to ask about that.

Mark McDonald: If it transpires that there is not greater North Sea oil and gas production, what is the effect?

10:30

Paul Johnson: There would be a small effect on the overall UK fiscal balance. My understanding is that it would have a much bigger impact at the Scottish level. At the UK level, tax revenues from North Sea oil are close to the level raised from taxes on tobacco. They are important, but they are very small relative to, say, corporation tax, income tax or VAT. Clearly, the reverse is true if we look at Scotland in isolation.

Mark McDonald: You have highlighted that there are efforts to crack down on tax avoidance. How realistic is it to try to achieve a significant reduction in tax avoidance? What is the best estimate of the amount of tax avoidance that could legitimately be stopped?

Paul Johnson: That is an extraordinarily hard question. The difficulty is always in looking at the counterfactual. Essentially, my take on what happens is that both sides are continually running to stay still. On the HM Revenue and Customs side, there are continual and genuine efforts to apply legislation and rules to reduce the scope for tax avoidance. The other side of the coin is that there is continued effort by the private sector to find schemes to achieve tax avoidance. We end up with a sort of stalemate in that, in broad terms, against a counterfactual of doing nothing, what the Treasury and HMRC do substantially increases the amount of tax revenue that is brought in, but against a counterfactual of the private sector doing nothing, it probably does not bring anything additional in.

It is impossible to answer the question of how much can be brought in by cracking down on tax avoidance. The answer is that it depends on what set of things the private sector would do to do more of it. I always find it difficult to understand the numbers in budget red books that say, for example, that an extra £5 billion or whatever will be brought in as a result of crackdowns on tax avoidance. We have not done this exercise—we probably should—but if we went back over the past 10 years and added all those numbers up, they would come to an implausibly large number.

In terms of policy, which is more interesting in a sense, there are clearly places where the structure of the tax system encourages tax avoidance of one kind or another, particularly where tax rates are not aligned between different kinds of activity. There is a lot of scope for thinking about the structure of the tax system and how to minimise opportunities for avoidance. I have already mentioned the difference between the tax rates on income and capital gains. There are also differences between the tax rates on earned income, self-employed income and companies.

When the corporate tax rate for small businesses was reduced to 0 per cent for a couple of years, there was an enormous spike in the number of people incorporating. That was not surprising, as it was an obvious opportunity for tax avoidance and of course people took it. There are ways of aligning elements of the tax system to reduce opportunities for avoidance.

I mentioned inheritance tax as well. We have such obvious opportunities for avoidance in the inheritance tax system that it is not surprising that people take advantage of them. Less obvious but complex routes for tax avoidance are available in the corporate tax system, which is an area in which we will have a continual game of cat and mouse.

Mark McDonald: Although individual taxes make up a small part of the global sum, there has been much talk about the impact that the VAT rise has had on economic growth in terms of activity, particularly in the construction sector. You spoke about the effect that stamp duty has on mobility by preventing people from moving house. It has been argued that the 20 per cent VAT rate has prevented small-scale housing improvements, which although small would take place on such a scale that they would at least keep up employment and keep construction activity going. What evidence do you have of the impact of the VAT rise on economic activity?

Paul Johnson: The increase in VAT was the most substantial of the tax increases. That increase brings in quite a lot more than the entirety of the revenue from North Sea oil, so it is quite big. There is evidence that the temporary cut in the VAT rate in 2009 had a positive impact on spending and economic activity, partly because it was specifically temporary, so people brought their spending forward. The extent to which it increased the totality of spending over time is much less easy to determine, but there is evidence that it had a temporary effect at least. We would, of course, expect that something that increases prices would reduce consumption, although it might do so by a relatively small amount.

Mark McDonald asked about construction. One of the oddities of the VAT system is that VAT is charged on small-scale improvements to houses but not on the building of new houses. There has been a massive downturn in the building of new houses, which clearly has nothing to do with the VAT system; it is to do with the demand in the economy and the availability of credit. I do not know the numbers relating to whether the impact on small-scale improvements has been bigger or smaller than the impact on the building of new houses. If it has been bigger, that is dramatic, as the rate of construction of new houses has dramatically fallen, but that certainly cannot be laid at the door of the VAT system.

Mark McDonald: My final question is on the way in which the taxation system is ordered, and I will use the oil and gas industry as an example, as I am familiar with it from the region that I represent and the industry representatives with whom I speak. There is a view that the supplementary charge was increased in order to take in more money and offset a cut in fuel duty. It appears that the impact of that will be that revenues will be decreased as a result of a lack of production. Have you done any calculations on where tipping points occur? Have you considered how far taxes on sectors can be increased before a tipping point is reached at which no more money will be raised because the level activity will drop and less money will be taken in?

Paul Johnson: We ask that question about quite a lot of taxes. As I have said, I am certainly no expert on the North Sea example, but the chancellor quite explicitly said that he was trading off the tax on petrol against the additional supplementary charge.

Broadly speaking, we think that there are probably a couple of taxes that are at or close to that tipping point. There is evidence that the taxes on tobacco, whisky and spirits are close to the point at which revenue will be reduced if they are increased further. In each of those cases, a lot of that is to do with the opportunities for smuggling and cross-border shopping, for example, as much as anything else. That is what a lot of the debate about the 50p income tax rate is about, of course. There are examples of tipping points in the tax system that we think we might be close to and, historically, there are examples of tipping points that we know we were above—for example, when we had income tax rates of 83p and 98p. We and other economists look at these things quite a lot, but I have not looked at the example that Mark McDonald raised.

Paul Wheelhouse (South Scotland) (SNP): I will deal with two subjects, one being a particular issue and the other being the policy response to it.

In your opening comments, you alluded to the serious risk that the sovereign debt crisis in the euro zone will have negative consequences in terms of austerity in the UK and in Europe. How concerned are you about confidence in the UK economy more generally? How big a drag will lack of consumer demand in the UK be on economic growth in the UK as a whole, although, obviously, we are particularly interested in Scotland? You made more positive comments about the prospects of a modest recovery in the US, but it appears that Europe and the UK will continue to be quite depressed economically, which will pose a major downside risk to the recovery of public sector finances through the budget process. Can you comment a bit more on that?

Paul Johnson: I will try. It is certainly the view of Oxford Economics and I think that it is the view of macro forecasters more generally that much of the upside for the economy will be driven by what happens in the US and emerging economies. If we are to be pulled out of our current problems, a lot of the pull is probably going to come from well outside the UK and Europe, which obviously leaves us exposed to things over which we have no control. That said, I know that Oxford Economics is relatively confident about what is happening in the US, where things appear to be improving somewhat, and there are at least positive signs in the emerging economies.

It is pretty clear that if things go badly wrong in the euro zone, which is by far our biggest trading partner, that will have substantial effects on the UK economy. The Oxford Economics model suggests that if the euro zone were to collapse—by which it means if five or more members were to leave—UK GDP in 2012-13 would fall by 2 and a bit per cent and fall the following year. However, the model suggests that there would be a strong bounce back, which in some sense looks positive.

If the euro zone collapsed, all fiscal bets would be off. It would clearly be inappropriate to try to maintain a focus on the current set of fiscal rules, because they would be almost impossible to observe. As I said, the previous Government ditched its fiscal rules once the financial crisis hit.

On consumer demand, I am afraid that this is another of those stories in which what has happened over the past few years is unprecedented. Demand is clearly linked to incomes, which have fallen in real terms by something like 7 per cent since 2009. They will probably level off this year and—I hope—begin to increase a little next year.

Demand is driven by a bunch of things. It has been affected partly by increases in taxes and partly by increases in unemployment but mostly by the fact that the rate of inflation has been much higher than the rate of wage increases. Our view is that, by 2015, incomes will be roughly where they were in 2002. We have never had a 13-year period of no growth in incomes. That has obviously had an impact on consumption.

We have looked at what has happened to consumption and what the OBR thinks is going to happen to consumption. The OBR was somewhat taken to task last March for suggesting that increases in consumption from 2012 would help to drive the economy. Even though the OBR's forecasts were substantially more gloomy than any previous forecasts, they have proved to be slightly too optimistic. Consumption has taken a remarkable hit and it is lower than in 2008. In comparison, consumption in the 1980s recession recovered to its previous level within three years of the bottom of that recession.

A broader point of considerable importance is the interesting breakdown of what has happened this time. There are big differentials in consumption according to demographic group. Our analysis suggests that there has not been very much impact on consumption patterns for people over 40 and certainly not for those over 50. However, as far as the younger generation is concerned, there will be a very dramatic impact on consumption levels, driven partly by unemployment, partly by what is happening to their earnings and partly by the lack of credit in the housing market and the need to save. There is not only a very different level of change in consumption but a pattern that is very different from anything that we have seen before.

10:45

Paul Wheelhouse: I am intrigued by your last point. The culture among the younger age groups has led to greater exposure to debt while older consumers tend to be more cautious. I wonder whether that, too, might be a factor.

There is an assumption of a modest recovery this year as inflation drops, consumer confidence returns and consumer spending increases. However, might there be a time lag because it will take longer for people's expectations of earnings to shift? For example, people might not notice that inflation has slowed and, because they are still expecting prices to continue to rise, they might put off spending. In short, recovery might be delayed as expectations catch up with reality.

Paul Johnson: Such lags as there are will have been built into the forecasts. However, the crucial issue will be what happens to wages over the next nine months. Over the past year, nominal wage increases have been in the range of only 1 to 2 per cent. If increases continue to be made in that range, lower inflation will probably make less of a difference than you might think; people tend to be fairly sensitive to the nominal change and, if they see their wages change in much the same way as they changed last year—even though their real income has not fallen—the difference in their behaviour might well be less than expected. However, as I have said, the crucial issue will be what happens to wages, which is difficult to predict. If earnings start to rise by 3 per cent in a bounce back from the real cuts that we have seen over the past two or three years, that might start to have a more significant effect on behaviour.

Paul Wheelhouse: I was interested in your earlier comment to the convener about the potential for a short-term fiscal stimulus, particularly the reference to roads and housing as two of the most positive moves in that respect. I feel that one of the challenges that we face is to raise our long-term sustainable growth rates because, by doing so, we might be able to grow the tax base to a point at which we can close the permanent gap in the fiscal position that you have identified and recover some of the spending that we previously enjoyed. Might the financial markets and credit agencies that assess our fiscal position take a more positive view of that kind of investment in roads, housing and even—I would argue—broadband infrastructure and rail? I appreciate that rail might take longer to deliver, but broadband is relatively shovel-ready and other projects—indeed, even some rail projects—in Scotland and elsewhere could be triggered relatively quickly if funding were made available. Would those looking at the UK from outside find raising the long-term economic growth rate through such investment more attractive as a stimulus and response to the current fiscal position than, say, short-term measures such as those involving VAT or other quick hits on consumer demand?

Paul Johnson: You are right to suggest that long-term growth rates are crucial and anything that can be done to improve them will improve the fiscal situation.

I am probably not the right person to ask about how the markets will respond, but I doubt whether they will respond in a significantly different way to policies that have a slightly different focus on achieving growth—at least, not in the short run. There is a lot of evidence that markets take a surprisingly long time to respond to longer-term issues and little evidence that, when they think about debt, they take much account of accumulated pension liabilities, which are very different across countries but do not seem—or take a very long time—to be reflected in the markets' response to those countries.

There is a clear difference between things that act as a short-term stimulus and things that create long-term change, but there are links. A short-term stimulus to increase youth employment, for example, would be expected to have some long-term positive effects, because we know that the effects of long-term unemployment can scar young people.

On spending, a lot of road projects appear to have very big benefit cost ratios, probably more so than rail for that type of economic return. In that sense, those projects might be expected to have more of a long-term effect than a straight short-term cut in a tax. You might go for a short-term tax cut because it can be done just like that—you can cut back VAT or national insurance tomorrow, as fast as you want to do it. Road or house building would take a little while to come on stream.

Paul Wheelhouse: On a point of clarification—

The Convener: I am keen to let other members in, but I might let you back in if we have time.

Elaine Murray (Dumfriesshire) (Lab): I was interested in—and surprised by—some of your statements and suggestions on the issues around tax reform. You suggested in response to Paul Wheelhouse that changes could lead to increased employment among mothers of school-age children—which I presume is what working tax credits and so on were intended to do—and among people aged between 55 and 70. Are you assuming that we will return to full employment? Otherwise, the chances are that the 55 to 70 age group will be economically active at the expense of the 18 to 30 age group.

Paul Johnson: Again, there is a short-run versus long-run issue. In the long run, there is no evidence that older people are competing much with younger people for jobs. If you look across time and internationally, you will find dramatic differences in the employment rates for older people and younger people, but they tend to be closely correlated. The employment rates for people under 25 and over 55 in France are very low, whereas in the US they are quite high on both sides of the equation. In the 1980s and 1990s, the employment rates for both groups were falling in the UK, but the employment rate for the over-55s has been rising since the mid to late 1990s.

The point that we make in the chapter on tax reform is specifically about the medium term. It is not about what we could do tomorrow to increase growth next year, but about what we could do to the tax and benefits system in the next five years to improve the productive potential of the economy in the next five, 10 or more years. We specifically discuss two groups—those aged over 55 and mothers of school-age children—because there are some groups of people in the population whose working behaviour seems to be almost unaffected by the tax and benefits system.

Across long periods of time and in almost every country, 90-plus per cent of men between the ages of 30 and 50 are working, but different numbers of mothers of school-age children work. That appears to be closely related to the tax and benefits system, the provision of childcare and so on. The same is true of people aged over 55, who are responsive to the pensions system, the tax system and so on. Our modelling suggests that, if we make tax allowances more generous at 55 or reduce the point at which we stop national insurance contributions, we could make quite a big difference to the numbers of people who are in work in the medium term.

I stress that chapter 8 of the green budget is specifically about the medium term. It is not about what we could do tomorrow to make a big difference.

Elaine Murray: I understand that. If we are looking at reform, many of the proposed models for the future governance of Scotland suggest that we will control our own taxation, so we will have to think about those issues up here when we consider future policies and so on.

The summary of chapter 8 states:

> "one of the reasons that consumption taxes may be more growth-friendly than income taxes is that they are generally less progressive."

That is somewhat counterintuitive. I am not sure that I understand why a less progressive form of taxation, which means that people on lower incomes do less well, necessarily increases economic growth. I presume that, if we tax consumption and property, it is more difficult for people on low incomes to be able to afford to purchase goods and services. I am not sure that I understand the correlation.

Paul Johnson: The main reason for our making that point is that a number of people—the OECD is a case in point—make such statements with some strength. They say that consumption taxes are better for growth than income taxes. The question is why. What such people often do not go on to say is that consumption taxes are generally less progressive than income taxes.

When we design any tax system, we are always—or mostly—trading things off, including the speed at which we increase marginal rates and the extent to which we charge everything at the same rate. If we have a flat consumption tax, there are probably lower marginal rates across a broader brand of people. If we have income taxes, there is usually a progressive structure, which charges people on higher earnings more.

Most economic models suggest that a higher marginal rate, or a progressive marginal rate structure, has a more negative impact on economic activity than a flat rate. We can trade off, as it were, the greater progressivity of the income tax system and the potential greater efficiency of the consumption tax system. The point that we were trying to make in the chapter that you quoted is that, when some people say that a consumption tax system is more efficient, they forget that it is also less progressive and that there is a trade-off.

Elaine Murray: It depends on the income structure of the population. I would have thought that, if we have a larger number of people on lower incomes, their spending power will be quite important to economic growth.

Paul Johnson: Their spending power and behaviour are clearly important. There are many elements. Taxes do three things to behaviour. They reduce people's income, so they reduce their consumption, but that might result in their working more to maintain their consumption. Taxes also reduce the amount that people earn for every extra hour that they put in, which might reduce their effort and, again, their consumption.

Elaine Murray: You also mention the setting of corporation tax. In a number of the scenarios that are under discussion, Scotland would be responsible for raising corporation tax. In the green budget, you sound a note of caution about using that power to reduce the rate of corporation tax. It states:

> "It is hard to judge whether the benefits from greater levels of activity would be sufficient to outweigh the costs of the public spending cuts that would be needed to finance reductions in the rate of corporation tax".

It also states:

> "separate rates across the four nations could lead to harmful tax competition within the UK, which would reduce tax revenues for all nations."

You say that, if the power to set corporation tax is devolved to Scotland, we should be cautious about rushing to reduce it, because that could have adverse effects.

Paul Johnson: You raise two points. Take a world in which the setting of corporation tax is devolved to Scotland and you make a choice about the rate. In the long run, a lower rate of corporation tax will probably have some positive impacts on economic growth. That might also be true of income tax and other taxes. However, as we say in the summary, there is evidence that corporation tax is one of the less efficient taxes. If we choose to reduce it, there will be an immediate fiscal consequence because, to cover the cost, we would need to either increase other taxes or cut spending. Governments make those choices, but how they will turn out over the medium term is difficult to determine.

11:00

In the past 20 years, headline rates of corporation tax in the UK and most other OECD countries have gradually fallen in the face of what is essentially competition between countries. What is interesting, though, is that the amount of revenue that is derived from corporation tax in most countries has not fallen as a proportion of national income, largely because the tax base has become broader over time. People have been forecasting for a long time that corporation tax revenues are bound to fall off a cliff at some point. It has not happened yet, but that is not to say that it will not happen.

In effect, the UK Government is trying to put in place a lower rate of corporation tax for some profits that it deems to be particularly mobile. That is what the thing that they call patent boxes is all about; it is intended to charge a lower rate of tax on revenue that is derived from intellectual property. We can have a discussion about why that is not necessarily being done in the most effective way, but that is how the Government is attempting it.

On the Scottish decision whether to increase or reduce corporation tax if it is devolved to Scotland, there would be a trade-off between the amount of revenue that you would get in the short run, the other tax increases and spending cuts that you would need to make, and the impact that there might be on long-term growth.

I suppose that, in this devolved world, there would then be a spillover effect on what was feasible or sensible in England and the other parts of the United Kingdom. If Scotland reduced its corporation tax rate to, say, 10 per cent, that could have two effects—it could increase the amount of investment in Scotland by Scottish companies, or it could draw in investment that would otherwise have occurred in other parts of the United Kingdom. The latter would be a negative spillover effect on England, which might decide to reduce its corporation tax rate. There would then be competition over rates of corporation tax, which would drive rates and revenues down in all the countries in a way that would not happen if corporation tax was not devolved.

That seems to be the balance of the arguments. One of the key questions is how much new activity would be created by a lower corporation tax rate in Scotland or Northern Ireland and to what extent it would simply take activity from one place and put it in another.

The Convener: In economic terms, though, Britain is not an island. Even if there was competition within the nations of Britain, it would surely attract investment from overseas as well. I am a graduate of the University of Stirling and I worked in one of the first silicon glen factories or facilities to open, which was Wang Laboratories. When Ireland reduced its corporation tax, that company moved over to Ireland. I also worked for Leo Laboratories, which also moved its facilities from the UK to Ireland because of the reduced corporation tax there.

The issue is not just whether there would be competition between Scotland and England. If there was such competition and England responded by reducing its corporation tax, it would surely be likely to attract investment from other parts of the globe to Scotland, England, Wales or wherever.

Paul Johnson: You are right. There is the issue of bringing in investment from elsewhere. One of the differences between England and Scotland relative to Wales and Northern Ireland is that England and Scotland are significantly wealthier and have significantly higher corporate tax bases than Wales and Northern Ireland have—or, indeed, than the Republic of Ireland had when it introduced a low rate of corporate tax. As a result, the risk to revenues in the short run is probably bigger in Scotland and England than it is in Northern Ireland and Wales or was in the Republic of Ireland. Nevertheless, you are absolutely right to suggest that one impact would be to bring in more investment from beyond these islands.

John Mason (Glasgow Shettleston) (SNP): I want to explore the point made in chapter 5, which focuses on public sector pensions and pay, that pensions and average hourly wages tend to be higher in the public sector than in the private sector. On the surface, that might be seen as a bad thing, but from another point of view it might be a good thing. After all, if private sector employers are paying only the minimum wage, the public sector has to top up wages with tax credits or whatever. There is still a cost to the public purse. One answer might be to raise the minimum wage and get the private sector's earnings up and more people paying tax, which would save on tax credits.

Similarly, with regard to the debate over whether public sector pensions are more generous—although, in absolute terms, they are not very generous—are we simply storing up longer term problems for pensioners in the private sector, who will not have any private pension and will be dependent on the state for pension credits and so on? How can we weigh those things up?

Paul Johnson: Indeed. You have asked a lot of questions. On the relativity between public and private sector wages, I do not have a view on whether it is appropriate for the public sector to pay 5 per cent more, 5 per cent less or whatever. It all depends on the quality of individuals that you want in the different sectors and the way in which labour markets work. Although we have done our best to control for differences between the public and private sector workforces, they might just be different in ways for which we are unable to control.

What is striking about the difference between public and private sector pay is that there appears to have been an unintended relative increase in public sector pay after 2008. Private sector pay responded quickly to the recession, essentially by not increasing much in 2009 and 2010, while public sector pay responded much less quickly, partly because of the number of two and three-year pay deals that were honoured. According to our analysis, it is arithmetically true that, broadly, the two-year public sector pay freeze and the two further years of 1 per cent increases will by 2014-15 have returned the relativities to where they were in 2008-09.

On the role of tax credits in topping up earnings, there is limited evidence on whether tax credits result in employers' offering lower pay than they would otherwise have done. There might be some impact, but the evidence is by no means convincing. The role of tax credits has certainly grown over time.

I guess that the real issue about the relativity between public and private sector pay is that, if wages get out of line in one direction or the other, either we will not be able to recruit people of adequate quality into the public sector—which one might argue was the world that we were in at the end of the 1990s, when it was extremely difficult in some parts of the country to recruit teachers and nurses—or, if public sector pay is much higher, we will simply crowd out activity in the private sector.

A striking finding of our analysis is that the relativities are different in different parts of the country but that, again, Scotland looks on average very much like England. Indeed, that holds true in much of our analysis of incomes, GDP and so on. Wales and Northern Ireland look out of line with the rest of the UK because in those areas public sector pay and employment are high relative to levels in the private sector. That might well be a cause for concern. On the other hand, public sector pay in London and the south-east looks a bit low, certainly relative to public sector pay in other parts of the country.

John Mason: On that point, it has been suggested that UK agreements should contain variations to allow higher wages to be paid in London and the south-east than elsewhere. Would paying higher wages for the same job not amount to a kind of subsidy?

Paul Johnson: London weighting already exists; at one level, someone doing a job in London is already paid more than someone else doing the same job in another part of the country. I cannot remember the numbers, but I believe that a police officer in Wales gets twice the average earnings in Wales, whereas a police officer in London gets just under the city's average earnings. The lifestyles that a salary can buy in different parts of the country and where people sit in the country's earnings distribution will be different, and that is reflected in differentials in private sector pay across the country.

John Mason: I do not know whether you have looked at the minimum wage or feel that it is outwith your remit, but have you considered the impact of raising that to the level of the living wage, which we take to be £7.20 an hour?

Paul Johnson: We have not carried out our own analysis on the crucial issue of the impact of such a move on employment levels. However, there is clearly a big gender issue. Most people on the minimum wage are women and, going back to your initial question, I should also point out that there is a much bigger gap between the public and private sectors in the wages paid to females. That the public sector premium for women is very much higher than the public sector premium for men might reflect the use of monopsony power in the private sector to keep wages down, particularly for women who work part-time, cannot travel very far and have limited choice, and the fact that in some sense the public sector is a better employer. It is still unclear, but there is a case for arguing that, with the smaller gap between male and female wages, the public sector might actually be paying closer to what might be called a market wage. The difference between the public and private sectors with regard to women is really quite striking.

What I find really striking about what has happened over the past 20 years with regard to pension provision has been private sector companies' almost complete withdrawal from defined benefit schemes of any kind. The development has been unbelievably dramatic. Twenty-five years ago, we would have thought of the UK as being very dependent on occupational defined benefit schemes, with 40 or 50 per cent of private sector employees in them; now, I think that significantly fewer than 10 per cent of private sector employees have access to an open defined benefit scheme and for young people coming into the labour market the number is smaller and disappearing.

There are two or three reasons for that withdrawal. First, the very big and somewhat unexpected increase in longevity has increased costs, and it is a cost—and a risk—that, for good reasons, the sector finds very hard to bear. The fact that the public sector can bear such costs is one reason why, as you have suggested, people think that pension provision in the public and private sectors might be different. Secondly, there has been a significant increase in regulation and companies have lost control over what they can do with their schemes. Finally, returns from the equity markets have been volatile and, over the period, not very good.

There are differences between the public and private sectors with regard to those issues because, as I have said, the public sector can bear risks that the private sector cannot, and it is not exposed to certain investment problems. What that means is that, although 40 years ago many aspects of employment in the public and private sectors, including pensions, looked similar, things now look very different.

11:15

There is almost complete coverage of defined benefit schemes in the public sector and almost no coverage in the private sector. That raises two issues. Could the state do anything differently in relation to the private sector, and could it shoulder some of the risks that private sector companies, quite sensibly, cannot or do not want to shoulder? That is an interesting question—could there be more risk-sharing between the public and private sector? If not, are problems created by having that different approach in the public sector? Does the increased generosity of the overall remuneration package in the public sector, relative to that in the private sector, create labour market problems? Secondly, what is the long-term cost of public sector pensions?

The cost is clearly affordable; the question is whether we want to pay it. On average, across the public sector schemes and after all the reforms are put in place, you would add about 16 per cent to the pay of an average public sector worker—if they earn £20,000, you would add £3,200—in order to get the value of their package. The average value of any private sector contribution is a lot lower than that 16 per cent—I cannot remember the exact figure—which increases the gap in remuneration between the public and private sectors.

John Mason: In the long term, however, the state has the problem of having to subsidise people who have no pension.

Paul Johnson: The state provides basic pensions for all. A bunch of things are going on in pension policy at the moment. One is the introduction of auto-enrolment from this September, and another is the earnings indexation of the basic state pension, which will apply to everybody—it will apply to both the public sector and the private sector—and will be the biggest driver of increased costs. The idea behind the current level of second state pension plus basic state pension is that most people will not retire on means-tested benefits.

The third thing that is being considered by the Government is the speeding up of the introduction of a single-tier basic pension, the idea being that everyone would retire on at least £140 a week. Contributions to their state earnings-related pensions scheme—the second state pension—would be put together with their basic pension scheme, and they would end up with £140 a week, which would keep them off means-tested benefits. We are waiting to see whether that will be implemented.

Many things are, therefore, going on that ought to result, in the medium term, in a smaller number of people being on means-tested benefits, but you are right to say that a large proportion of people over the pension age currently receive a means-tested benefit of one kind or another.

The Convener: Gordon Brown’s private pension tax grab clearly did not help either.

Gavin Brown (Lothian) (Con): Mr Johnson, I want to get some further particulars on some of your opening remarks. Your short-term forecast is slightly weaker than the OBR’s most recent forecast, but you have said that, in the medium term, tax revenues will be slightly higher. The figure you gave was about £9 billion, but you stressed that that would be in the medium term. Where will the increased tax revenues come from, and what will underpin them?

Paul Johnson: I suppose that the question that we have asked ourselves is slightly different. We do not understand why the OBR is being so gloomy about tax revenues. It has also made assumptions about economic growth. Under economic growth, tax revenues are usually expected to rise in real terms, because, as a result of fiscal drag, people are dragged into higher tax brackets and profits increase. In addition, some of the tax increases announced by the Government have yet to come into effect.

The short answer is that we see more tax revenue throughout the income and corporate tax system than the OBR does. We are meeting the OBR this Friday to try to understand why our view is different. We are a little puzzled about why the OBR is so gloomy about tax revenues.

I should stress that, like the OBR, we are not building into that any assumption about the proposals for the personal tax allowance. Although the Government has said that it wants to achieve those policies, it has not enacted them. The OBR does not take account of policies that have not been enacted. I cannot remember how much those proposals would cost, but it is certainly several billion pounds. They are not in any of the fiscal arithmetic at the moment, and if that approach is to be taken, it will need to be paid for somewhere else in the tax or spending system.

Gavin Brown: Do your assumptions take into account a rise in line with inflation for the personal allowances, or are you assuming no increase?

Paul Johnson: They take into account a rise in line with inflation.

Gavin Brown: One of your conclusions was that you wanted a spending review—an accelerated one, I suppose—by the end of next year. Will you expand on that? Also, for how many years ought that spending review to be in place?

Should it be three years or four years, for example?

Paul Johnson: In some senses, the process would not be accelerated because the previous spending review was at the end of 2010, so it would still be three years after that one. Historically, over the past 10 to 15 years, that has been the frequency.

Our view is that the issue is really quite important. The previous spending review happened very quickly after the Government came into office and a lot of big decisions were made about the relative priorities for different departments, for example a real freeze in health, something like an overall 10 per cent cut in education—very much focused on capital spending—a 25 per cent cut in spending on justice, the police and so on, a 30 per cent cut in spending on local government, and a 70 per cent cut in spending on social housing. There were some quite dramatic differences between departments and some significant choices taken within departments.

Given the overall budget constraint that the Government has set itself, it had to make some big choices. By the end of 2013, we will be a couple of years into that process and we will know more about what has happened and how effective it has been, and we hope to know a little more about what the impacts have been. It will be surprising if it turns out that those ex ante decisions were exactly the right set of decisions. That is not a criticism—whatever choice we make, it is unlikely that we will get it right. Some review of that seems an important part of good government.

We know that some cuts are going to be more difficult to achieve than others. An example is the big cuts faced by the Home Office and the Ministry of Justice. It is essentially not possible to make policemen redundant, which makes it difficult to achieve the proposed cuts. If they are achieved, it will probably be by making redundant those who are the least expensive to employ and leaving in place those who are the most expensive to employ. The committee might want to revisit that example. That is one part of it.

The second part is that by the end of 2013 we will be only 18 months away from the new set of cuts that have been pencilled in for 2015-16. Given the scale of change that local authorities and education and health systems will have gone through up to that period, if they are not given an adequate period to prepare for more very bad times or for some slightly better times, there is a risk that substantially inefficient decisions will be taken very quickly. From a political point of view, it would probably be more comfortable to leave those decisions until after the 2015 election, but that would mean making in-year cuts immediately. If people do not have a chance to plan, particularly after the difficulties that they will inevitably have had over the period up to that point, there will be a risk of significant inefficiency.

It may be that 2013 is too early, but 2016 is certainly not too early for the Government and the country to be thinking really hard about what we want the shape of the state to be going forward. On OBR projections, by 2060 we will be spending half of everything that the state spends on just health and pensions, purely as a result of demographic change. In our view, those are conservative assumptions and the figure may be higher than that. That leaves us with some very big, long-term strategic decisions to make. We might seek to move from a broad equilibrium of spending 40 per cent of GDP on public spending to spending 45 per cent of GDP on public spending to accommodate those pressures. That is a plausible but big long-term choice. Alternatively, we might want to make substantial reforms to health and pension spending in order not to accommodate those pressures, or we might need to find ways of imposing more substantial cuts on everything else that the state does. Over time, those things change, but they tend to change without any serious discussion. Our view is that we are getting to the point at which we need to think publicly, not just within Government, about what our decisions should be.

Gavin Brown: Thank you. In your analysis, have you drilled down much into the Scottish economy? If so, are your projections for the Scottish economy different from those for the UK economy more generally?

Paul Johnson: We have not looked at the Scottish economy. However, I can give you a couple of thoughts that strike me immediately, looking from the outside at how the UK fiscal and economic situation relates to that in Scotland. I have said it a couple of times, but the income and GDP levels and so on look very similar. As you know, Scotland is not like Wales and Northern Ireland, which are very much poorer than England.

The second point that strikes me is how important North Sea oil is to the Scottish economy. The North Sea oil tax revenues are important in the UK budget, but they are small. However, in the context of the Scottish budget, they are really important. That makes the Scottish economy a different kind of economy from the English economy. It also has an impact on volatility in the fiscal situation at a Scottish level.

I do not really have any views on the macroeconomic outlook for Scotland relative to that for England.

The Convener: I want to raise one other issue that has not been touched on by anyone so far, although it takes up one of the 11 chapters in the green budget. The withdrawal of child benefit from better-off families will impact on 1.5 million families and is significant, given that child benefit can range up to £2,449 a year for families with three or more children. You say:

> "The 'cliff-edge' feature of this policy ... will create a bizarre and economically damaging set of incentives for people within certain income bands."

You go on to talk about

> "the fairness of effectively rewarding people for working less or arranging a pay cut with their employer."

A couple who earned £42,000 each would not lose benefit, but one person earning £43,000 would. If someone earning slightly less than that were offered a pay rise or promotion, they might decide to reject it because they would lose their benefit entitlement.

Can you expand a wee bit more on the impact of the change on the Exchequer? You have talked about the significant loss to the Exchequer through people avoiding tax and so on.

11:30

Paul Johnson: You have summarised the issue very well. I should probably declare a personal interest as the father of four children who currently receives child benefit.

The point that we are making is not about whether taking child benefit from people on higher incomes is the right thing to do. The question is whether the approach in question is an effective way of achieving that. As you say, there seem to be two quite substantial problems associated with it. One problem is that the moment a person becomes a higher-rate taxpayer, they will lose all their child benefit, which means that, as we have said, several hundred thousand people will become worse off if their earnings rise, and several hundred thousand people will become better off if they manage to reduce their pay. That is not as difficult as it may appear: if a person makes pension contributions, their taxable income will not be affected, so a clear incentive will be put into the system for people who are just over the higher-rate threshold to up their pension contributions, which will increase their long-term income—and their short-term income. It will be interesting to see whether people take advantage of that.

The Exchequer saving from the policy is reasonably significant. I cannot remember what it is—I do not have the number in front of me—but I think that it is around £2 billion. Given the problems that you have pointed out, the question is whether there are ways of achieving something similar without creating those problems. The obvious method would be integration into the current tax credit system, which provides a direct mechanism for providing higher child benefit payments to particular groups that one wants to target. We have illustrated ways in which that can be done. That will not give exactly the same outcome as will come from the child benefit policy as described, partly because the child tax credit is also dependent on family income. That is probably an advantage for exactly the reasons that you have described—unless we want to treat two people who are on £40,000 much more generously than one person who is on £44,000.

The downside of that approach is that the take-up of child tax credit is not 100 per cent, whereas the take-up of child benefit is near enough 100 per cent. One would therefore potentially risk not paying support for children to a reasonably substantial number of families that one is not aiming to take it away from. I cannot remember the take-up level for child tax credits for people on £30,000 or so, but it will be well below 100 per cent. If there was a move towards paying child benefit through that route, there would be a risk of reducing the take-up level to well below 100 per cent. As a policy, it seems better but it is not without risks, and the policy as it is currently constituted looks odd.

The Convener: Thank you.

I apologise to Paul Wheelhouse and Mark McDonald, who have further questions—unfortunately, the session has already really overrun. I will allow our committee adviser, Professor Bell, to make some comments, if he wants to do so. He is not allowed to ask questions, but he can make comments.

Professor David Bell (Adviser): I have very much enjoyed the session. I will make three or four points that the committee might like to consider.

In particular, I want to pick up the point about the IFS proposal that there should be a spending review in the very near future. I invite the committee to think about what its role would be in the spending review that would naturally follow for Scotland, particularly in the light of the gloomy public spending outcome that we can see on the horizon over the next few years. Once again, that raises the problems that the committee has had over the years in trying to press for the maximum efficiency out of our public services and getting the data that we need in order to get efficiency to increase. That is particularly relevant in the light of some of the earlier discussion.

I think that Mark McDonald first brought up the issue of tipping points. Some tax rates are so high that we are getting to the stage of having difficulty seriously believing that revenue will expand significantly in the future.

There are further reasons why we should be interested in understanding behaviours in response to tax changes. It is possible that Scotland will have more tax powers, so those behaviours will be as relevant to us as they are to the UK as a whole. If we had control over excise duties, issues such as the importance of smuggling would take on a different aspect. How mothers with young children or older people respond to changes in the income tax system will be relevant in almost any state of the world if the Scotland Bill is passed.

Paul Johnson argued that Scotland and the UK as a whole are pretty much the same in many respects, but our demographic situation is a little trickier. In relation to public spending projections, that raises the problem of intergenerational equity, which I have banged on about. I learned an interesting fact about that this morning, which was to do with the differences in consumption patterns between the over-50s and the under-50s. We had a good session on demography, but we must translate that into understanding what it means for the Scottish budget.

We had an interesting discussion about public sector pay and pensions. As Jeremy Peat is sitting in the public gallery, I highlight the work that the David Hume Institute is doing on public sector pay and pensions, which will result in something being published in the next couple of months or so.

We might want to invite the Low Pay Commission, which has come up once or twice before, to make a presentation on low pay. It is the appropriate body to discuss the response to changes in the minimum wage.

The Barnett formula has not been mentioned at all. The way in which it works in theory is that, as long as spending increases, the Barnett squeeze should occur, so that we move towards equalisation of public spending in what are called the different territories, or nations—I had a big dispute about that yesterday, so I will not commit myself on that.

The Convener: Go on.

Professor Bell: The corollary of the equalisation of public spending per head in England, Scotland, Northern Ireland and Wales when spending increases is that, when spending decreases, we move back towards the original settlement way back in 1979, which would embed Scotland's public spending advantage going forward. That is a final point to throw in.

The Convener: Thank you very much, Professor Bell. We are now well over time, so I thank Paul Johnson for his attendance and his answers to our questions. We shall reconvene at 11.45.

11:38

Meeting suspended.

11:45

On resuming—

Budget 2012-13 (Preventative Spending)

The Convener: Item 2 is a round-table discussion on the Scottish Government's response to the committee's report on the 2012-13 budget, specifically in relation to preventative spending.

I welcome to our discussion John Downie from the Scottish Council for Voluntary Organisations; Dr Laurence Gruer from NHS Health Scotland; David Dorward from the Society of Local Authority Chief Executives and Senior Managers in Scotland; Ron Culley from the Convention of Scottish Local Authorities; Angela Cullen from Audit Scotland; and Mark McAteer from the Improvement Service.

As we are taking evidence in a round-table format there will be no opening statements and we will proceed straight to questions. Anyone who wishes to ask a question or make a contribution or statement should feel free to do so.

To give you a wee bit of background, the committee is keen to focus on how preventative spend is becoming embedded across public service delivery; whether budgets will be better pooled; and how good examples of preventative spend will be identified and assessed and then shared and rolled out when appropriate.

John Downie will start us off by talking about the importance of community-based interventions.

John Downie (Scottish Council for Voluntary Organisations): Thank you, convener. We submitted a briefing note to the committee on preventative spending. People are talking about building community capacity, and in our analysis the change fund plans that were submitted last week show that the third sector is in some senses pigeonholed and restricted in that regard. We need to define what we mean by community capacity. Is it the capacity of small local organisations to deliver public services? Is it about helping the most vulnerable in society? There are a wide range of possible definitions.

For us, it is about focusing on what those plans will mean, and what prevention actually means. There has been a great deal of rebadging of existing programmes as prevention so that they sit within certain budgets and with the prevailing flavour. Overall, there is a greater emphasis on prevention, which is to be welcomed. I will talk later—perhaps in response to members' questions—about our initial response to the change funds.

I will give a practical example of community capacity. I am chair of a social enterprise, Impact Arts, that is based in the east end of Glasgow. We are launching a report this morning with the Minister for Public Health on the work that we have done in conjunction with Cassiltoun Housing Association and Elderpark Housing Association on how the social return on investment model helps older people with regard to social isolation.

Helping older people to re-engage with society is a prime example of community capacity. The benefits for them are improved wellbeing and better health, and I will happily submit the report as evidence. We broke down the benefits into those that applied to older people themselves and—most important—those that applied to the national health service in terms of reduced visits to general practitioners and less requirement for treatment. The scheme was a small pilot, and we will continue it. It shows the benefit of community capacity in an arts organisation that is working with older people and in some cases with young people.

We need to look at what we mean by community capacity and examine where prevention exists. Not all third sector organisations deliver public services, but they can build capacity.

Another example is community jobs Scotland, which the Government continues to fund and which gives young people support and real jobs, mostly in community organisations. Its work is building not only the capacity of those organisations to do more for people but young people's skills, experience and knowledge and giving them an opportunity for the future.

Paul Wheelhouse: I think that John Downie heard our previous evidence session, so I hope that I am not catching him on the hop. Towards the end of the session, the director of the IFS suggested that, as the longer-term demographic challenges that the country faces put more and more pressure on health, pensions and so on, further cuts in public spending will be necessary. As the convener has indicated and as Mr Downie will be aware, we have been doing a lot of work on preventative spending, which we did not actually discuss with the IFS, and one response to the projected increase in public spending on acute services is to invest in prevention to reduce demand and offset a potential rise in costs.

I know that the SCVO is worried about the impact on the voluntary sector and the fact that those services seem to be the first that local government and other partners are cutting, but do you have any views on using social finance to offset that potential cut, make the necessary investment in preventative spending and deal with the longer-term problem of the projected growth in costs that the IFS highlighted?

John Downie: Where do I start? In the long term, as we move into the preventative spending agenda, we will be looking to intervene before needs or problems arise. At the moment, we seem to be talking about preventing problems from becoming crises. Social finance has a place but although the evidence from the small number of pilots shows some good indications, no one has yet taken it up in the belief that it will really work. Having looked at how we might use social finance effectively in the reshaping care for older people agenda, we think that it can work but we would need to be very clear about the outcomes and savings we would want to achieve. There is probably only a small number of very achievable outcomes and, to really try out and test such an approach, we need investment from the Scottish Government, the Big Lottery Fund and other funders. Obviously there are various key areas to target such as the reshaping care for older people agenda that I mentioned and areas of justice such as offending and reoffending rates.

Social finance seems to have gone off the radar over the past year. It is still around, but those who are assessing the pilots and what has happened so far are asking how it will work on a practical level. That is, indeed, the issue for us. We think that it has potential and the SCVO has even said that it is happy to invest in it with others in the third sector to find out whether it actually works, but as yet no good proposals have cohered around it. The question is difficult to answer at the moment.

Paul Wheelhouse: I raised it merely as a proposal that might stave off some of the potential cuts in the important work that your members carry out locally and to find some means of bringing in additional money to prevent those cuts from happening.

John Downie: I think that, with the move to the preventative agenda, attitudes are changing. There is more of a recognition that we are all in this together and more opportunities are emerging in the third sector. As far as the change fund is concerned, the third sector is restricted in some ways; nevertheless, we are making in-roads.

Of course, the situation is different in different areas. Many local authorities are investing in their third sector, others less so. We have always said that the third sector needs to step up; prove its case about the impact that it has on, and the difference that it is making in, people's lives; and set out the facts and figures that demonstrate that difference and the savings that it can make. It is easy for us to criticise local authorities and public sector agencies, but the onus is on us as well.

In the previous evidence session, someone referred to tipping points. The third sector has the opportunity to do much more in, for example, the integration of health and social care, but it will mean a change in attitudes and culture. I am not saying that we have gone far down that road, but we have certainly started the process of change.

Many third sector organisations that are funded mainly by local authorities will be finding out how much they will get over the period and what authorities will want them to do. One of the big changes that needs to be made relates to the procurement process, which I am sure the committee has discussed; at the moment, the process is great for buying tables, chairs and pens but it does not really work when it comes to buying services for real people. The personalisation agenda will also change the approach of the third sector and public sector agencies. However, this is a time of positive opportunity if we can grab it.

The Convener: You said that you have met with resistance from some in the public services who are not convinced about the preventative approach, and in your submission you make it clear that

"evaluation is the most important missing ingredient. Without quality evaluation it is difficult to share information about what works, and why it works."

John Downie: As we keep saying to our sector and indeed everyone else, we need to be able to measure these things. I have already mentioned the social return on investment report by Impact Arts; I am sure that many MSPs were at the launch of the report by Edinburgh Cyrenians on its partnership working with the City of Edinburgh Council and its interventions to prevent people from becoming homeless, all of which saved the council money in rent arrears and so on. We need more such evidence and that will require the third sector and the public sector to work together.

Aside from that, we need culture change. We need people to be saying, "We know in our gut that this is the right way to go." We will not have every piece of empirical evidence that we need, but we know that this is the right direction and that we need to invest. Of course, that will require people to have some trust in change.

Returning to your quotation from our submission, convener, I think from our initial analysis of the new change fund plans—which we have submitted to the Scottish Government and which I am happy to submit to the committee in evidence; we did not do so because the plans have not yet been published—10 partnerships are allocating more than 30 per cent of funding to preventative spending. The average is about 22 per cent—some are allocating less than that—but that shows a big change from what happened last year. Obviously, we need to dig deeper and find out whether they are really spending the money on the preventative spend agenda. However, although we might have some concerns in that respect, we simply need greater third sector involvement. We do not want NHS boards thinking that the change fund money belongs only to them.

In short, we are seeing signs of change in relationships and approach in the third sector and the public sector, and I hope that it is generally positive.

Angela Cullen (Audit Scotland): I agree that, in the shift to preventative spending, a huge cultural and behavioural change needs to be made but such changes are never easy. Indeed, we know that from trying to do the same in our organisation. A lot of it will be about prioritising things and spending money differently, and it might also involve stopping certain services or delivering them very differently. As I have said, there will have to be a lot of changes to culture and behaviour.

I also agree that the evaluation of the success of prevention across the country is mixed. Evaluation is key to identifying what might work and what does not work, but obviously it is hard to carry out because one needs to take a longer-term as well as a short-term perspective. Changing outcomes is a long-term issue, so the question is when the evaluation should be done and what measures need to be in place to ensure that it happens.

12:00

We have identified some examples that we think have contributed towards prevention. In a telehealth report last year we identified that more investment in telehealth could keep people out of hospital and that there was even scope to reduce the number of GP visits. The use of statins in the health service to prevent heart disease is also having an impact.

Work that we did on drugs and alcohol a few years ago identified that, although there was some evaluation of interventions, there was not so much evaluation of what made for good prevention. Work definitely has to be done on that. We have indicated that we will follow up our work in that area. Prevention is one issue that we will look at.

In a criminal justice overview last year, we identified that around 10 per cent of the total spend on criminal justice was directly on prevention. That was a rough estimate based on the information that was available, but it was the best estimate that we could make at the time. We are now doing a detailed performance audit on reducing reoffending. We are looking at prevention as part of that work and we hope to identify some examples of good practice that could be rolled out across the country.

We have identified a couple of examples of good practice, but they have not been rolled out. They have not necessarily been evaluated, or a longer period is required for the evaluation to bed in. When they have been evaluated, the experience has not necessarily been shared or rolled out across the country.

Ron Culley (Convention of Scottish Local Authorities): I echo a lot of those sentiments. There is a need to better understand the evidence about what works with regard to preventative spend. I sense that there is a developing evidence base. For example, reablement work with older people has proved to be successful. More and more local partnerships are picking that up and running with it.

As Angela Cullen said, the other part of the preventative agenda—in addition to understanding what works in prevention—is having a rational assessment of what not to do. That is just as difficult, for different reasons. It raises questions about where, as a nation and in localities, we should be disinvesting. That is a difficult issue both politically and operationally. It is important that we put that message across, given the broader context of the public finances. We have heard about the impact that demographic change will have on the overall demand for services such as health and social care.

The disinvestment part is crucial. If we do not get that right, the preventative agenda will founder. Difficult decisions will require to be made. For example, figures that I got recently from the joint improvement team indicate that, over the next three years, there will need to be a 12 per cent improvement in emergency admissions to hospital in order just to stand still. In other words, demographic change will happen at such a rate that we will need to achieve a 12 per cent improvement to stand still. That means that if we do not do better than 12 per cent, disinvesting to reinvest becomes awfully difficult.

Huge benefits could accrue from getting this right, but tremendous challenges lie in our being able to disinvest appropriately at the right time in the right places.

The Convener: Emergency call-outs have been highlighted a number of times, particularly given their huge cost.

Mark McDonald: I put on record my interest as a member of Aberdeen City Council.

My question is for local government colleagues, although Audit Scotland might also have a view. When I have tried to get people to do things differently at the city council, I have all too often come up against the cultural problem of how to get people to shift their focus from doing things the way that they have always been done to doing something a bit more radical and different. It is not always the practitioners or the people at the front line who are the problem; indeed, some of the very best ideas for doing things differently come from the people at the coal-face who deliver the services. There seems to be a blockage between the strategic direction and the front line that prevents some of those innovative approaches from being taken. I wonder whether our colleagues around the table have come across that mentality and those difficulties and how they think the issue might be addressed.

In my view, the biggest difficulty with the move to preventative spend is getting people on board with the mindset. As I have said in the chamber, I think that it is as much about the mindset as it is about the money, and the key is having the will to deliver services in a different way.

David Dorward (Society of Local Authority Chief Executives and Senior Managers): I do not know where to start, or whether answering that question would be the right thing to do.

On John Downie's question about cuts, I cannot answer for all 32 councils but I firmly believe that councils see the third sector as a full partner in the delivery of services. To me, that is a very important change. It will, of course, depend on which community planning partnership you look at, but I know that in Dundee the sector is a full and active partner; it was a partner in the change fund applications and it will be a partner in their delivery. There is no question about that. In fact, it would be absolutely wrong to do otherwise. In certain situations, we will transfer services from, if you like, the public sector to the third sector because we think that it is the most appropriate place for their delivery.

As for culture change, there is no question but that the culture in local authorities has changed. In Dundee, it changed because of adversity, child protection issues and so on. We need to change from the situation in which the local authority, the health board, a group of voluntary sector organisations and the police work individually because, if we do not, we will never address prevention and intervention. Now we are all working as a partnership.

The budget issue should be secondary. Instead, we should concentrate on getting the services on the ground working as one, because that is what the communities want. The budgets will follow. As an accountant, I find it very difficult to say, "Let the funding come later" but if we start arguing about who is putting what into which pooled budget we will lose sight of the vital issue: service delivery on the ground. We have given the voluntary sector a three-year funding commitment because we know that the sector will find it difficult to employ people if it does not have surety of funding. That is a very important issue.

Although I think that the culture change happened first, the change funds give us a real opportunity to go out and take a bit of a risk. Mark McDonald is right to suggest that there has been an aversion to change and that people have simply wanted to stay with services that have or have not worked. However, a serious culture change is happening with regard to considering innovative ways to provide services.

The point about front-line services is very important; indeed, it was those very services that drove us to the changes we made in our response to child protection. Those people know the day-to-day things about what is required, when it is required and what level it should be provided at. The other important partner in that regard is the community and we are running a pathfinder in Dundee to allow the community to tell us what it believes is required with regard to early intervention and prevention.

We are using Dundee's two universities to help us with gathering evidence. However, it is still quite early in the process. When I surveyed local authorities on what they would put forward as evidence of change with regard to early intervention and prevention, I was quite surprised by the broad spectrum of responses. However, the point is that I did not know any of that information, and it demonstrated the importance of sharing practice. Good examples exist but people in the sector are not very good at sharing them with one another. I cannot put my finger on why that should be because, after all, one would have thought that to be the best thing to do. We are certainly not precious about that anymore; indeed, we will go abroad to examine models to find the best way of dealing with an issue.

That is where I think we are at the moment, but I stress that there is certainly no resistance from local authorities to early intervention and change.

John Downie: It is interesting to look at the various practical examples of approaches that, as Mark McDonald mentioned, have come from the front line. For example, I was speaking to people from a big housing association and a hospital about a number of older people who were, in effect, subject to delayed discharge at £3,000 per month when they could have been in the housing association at £1,000 or whatever the cost was. The reality is that the people at the front line were not able to transfer those older people into that housing association and save the £2,000 because the decision was made by someone at a much higher level, who was no doubt sitting there, thinking, "This delayed discharge is costing us a fortune. How can we save that money?" We need a culture change in decision making about budgets and implementing prevention, and perhaps the front-line staff who know more about those needs should be more empowered at various levels.

Prevention also comes down to the political will of cabinet secretaries and ministers. If a health board chief executive wants to shut a local hospital in order to move resources to prevention, he or she will no doubt get a phone call from a minister, saying, “We don’t think you should be doing that—and particularly not when local government elections are going on.” However, if ministers are buying into this approach and telling health boards to move resources to prevention, they need to have the political will to back up the boards in making those decisions. I understand the issues here, but we cannot simply be thinking about short-term political gain.

We need to make prevention work on a range of levels. The drivers for it are strong, but ministers need to realise that hospitals and prisons will have to shut if the approach is to work.

Elaine Murray: My comments follow on quite nicely from what John Downie has just said. They are in some ways related to Mark McDonald’s points but are less about those who deliver the services than about those who receive them and their families.

The fact is that people are often resistant to change. That came to mind when I was listening to John Downie’s comments about personalisation, which is often perceived by the families of recipients of such care as a cut in services and the closure of facilities. Indeed, instead of being seen as offering a service that was tailored to people’s requirements, the term “personalisation” became something of a dirty word in Dumfries and Galloway and was associated with plans to close adult resource centres and so on.

As a result, politicians, councillors and others can get heavily lobbied by their constituents and become drawn into campaigns to resist change. Does anyone have any experience of overcoming resistance to a change that people perceive as a loss—not a gain—in services and of presenting the case for a change in a way that the public, not just professionals, can understand?

Mark McAteer (Improvement Service): If one of the themes of the discussion is the challenge of the change, I have to say that, if we characterise that only as a need for cultural and behavioural change, we will misdiagnose the problem. The vast majority of the people with whom I have worked at the middle level that we have discussed make decisions on the circumstances that present themselves and, by and large, will try to do the right thing.

To take Ron Culley’s example of emergency admissions, any doctor or clinician who is confronted with a frail, vulnerable older person in the middle of the night will admit them to hospital, because it is the safe thing to do. For us, that is a reactive response, not a preventative response—that would be to ask how we stop that older person getting in there—but it is the right thing to do in that circumstance.

12:15

The problem that we have across a range of public services is that they were designed not with prevention in mind but for other purposes. It is therefore the system failures that build up across public services that leave a doctor in the position of having to admit an older person to hospital at 2 o’clock in the morning. The fundamental issue that cuts across everything and which is also important in driving behavioural change is that we must design public services to do different things. That is a hugely difficult task but, as John Downie said, it must be a massive political priority for all of us.

Allied to that issue is that of the duties that we place on public authorities. It was in the Christie commission report and has been picked up in some of the committee’s written evidence that we do not have a common duty for outcomes across public services. If we look across the range of duties that apply to public services, by and large they refer to making arrangements for the provision of services but do not say anything about outcomes for people or customers. That is another fundamental issue that we must pick up.

If we keep characterising the situation as being only about the people in the middle making decisions, allocating resources, aligning or pooling budgets and so forth, we are misdiagnosing it. The fundamental issue is that we need to design public services in a particular way. Again, that includes how we interact and work with the voluntary and third sectors. That is another fundamental issue that we should explore and think about as we go forward.

Angela Cullen: I will pick up on some earlier points. I agree with what David Dorward said about the system of partnership working, which is fundamental to the preventative approach. Organisations cannot continue to work in silos. There needs to be a preventative view across the whole system, and organisations must work together on joint planning, particularly if they intend to share or move resources at a later date.

I agree that the decisions on the approach need to come first. I am also an accountant, and it pains me to say that the decisions need to come first and the money will follow—apologies to other accountants sitting round the table. It is absolutely key that the decisions come first because the decisions that individual bodies or individual people within bodies make could have positive or negative consequences for others. Changes or decisions in an individual organisation could affect others in the organisation or affect other organisations in the system, be it in a region such as Tayside or elsewhere. There is real collaboration and whole-system work to be done.

An organisation that changes its services to do things differently for a preventative approach might not see the benefits of that; other organisations in the system might reap the benefits. I echo the view that the users of the services are paramount in that regard.

As for resistance to change, strong leadership is the key to winning the hearts and minds of staff, stakeholders and users. I appreciate the comment that Elaine Murray made about personalisation and how difficult it can be to change the approach, but we can prove that the preventative approach works and can make a difference, although not necessarily in one particular area. However, we should be able to call on experiences from across the country. As David Dorward said, we are not necessarily good at sharing such experiences. However, proving that the approach works can make a huge difference.

Gavin Brown: I am pretty sure that the SCVO welcomed in its budget submission the Government's commitment to preventative spend and its provision of £500 million for that. However, I think that the SCVO also pointed out that a pretty low percentage of money in the existing change fund was genuinely going to preventative spend.

John Downie: Yes.

Gavin Brown: I think that it was about 20 per cent.

I am interested in anyone's responses to my questions, but particularly those from the SCVO. What oversight is required to ensure that the amount of money for preventative spend is not so low next year and for the following two years from the three change funds that are, or are about to be, in place? What level of stakeholder engagement has there been so far to ensure that the percentages become significantly higher?

Paul Wheelhouse: I might return to some of the points that Ms Cullen made, but I was struck by a point in the SCVO's briefing note to the committee on prevention. Under the heading "Making good practice more widely available", it states:

> "There are some tensions around doing what has already been proved to work versus innovative new projects. Sometimes ... pilots are given priority over tried and tested models but ignoring new models removes the opportunity to improve best practice."

In round-table sessions, a couple of examples of pilots were mentioned, one of which is certainly relevant to the south of Scotland as it is from East Ayrshire Council, and I took it up with the council when it was at a committee meeting. The council has a successful MEND—mind, exercise, nutrition, do it!—programme to deal with childhood obesity, which has had a high impact. I subsequently visited the council, and people there said that they were nervous about the possibility that a top-down programme would be imposed to replace what they feel is a successful programme at a local level.

On the other hand, we have initiatives such as family-nurse partnerships, which seem to be very successful. There is good evidence that they will deliver great benefits for parents of young children. Perhaps that initiative needs to be rolled out nationally to ensure that the impact is felt nationally.

The data on delayed discharge that was released yesterday showed that, although there is an overall downward trend, there is huge variation among local authorities and health boards. My area, the Borders, shows a two-thirds reduction in the number of delayed discharges and the elimination of delays of more than six weeks.

There is clearly much variation across the country. A number of people around the table might want to comment on the balance that we need to strike in allowing innovation to continue and in taking risks in coming up with new programmes—not punishing people for taking a gamble, if you like—while rolling out good practice.

Mark McDonald: This is probably going to be more of an observation than a question, but folk can feel free to comment on it. John Downie highlighted an important issue when he spoke about the problem of short-termism versus long-termism. It has long been a bugbear for me that all too often in politics we focus on the short-term gain rather than the long-term gain. If we are told that there are two choices before us and that if we take one we will see a marginal benefit within a four-year window, while with the other one we will see a much greater benefit within a 10 to 15-year window, most politicians will take the four-year window, because they are likely to face the electorate again at the end of that time.

Those choices do not always have to be in conflict. Too often, we assume that people are looking for the short-term benefit when, in fact, the wider public out there are more subtle than that; they recognise that, when we take tough decisions, that is a demonstration of leadership. If we can show them that the tough decision will lead to a tangible, long-term benefit, most people out there are nuanced enough to see that it is the correct decision to take.

Too often, as Elaine Murray highlighted, we get a bit worried about constituents or pressure groups who are obviously emotionally attached to a particular way of things being done—for example, perhaps that might be about a particular school or local facility. If we can take them on a journey and show them where the long-term benefit lies, they will come on board. That will not be the case for everybody, because there will always be people who will not be happy. However, the majority of people will eventually come round.

I speak from the experience of having inherited the administration of a local council that was in a very bad way. As I am sure Angela Cullen will agree, the way in which budget setting is now done in Aberdeen is being held up as a model for other local authorities in terms of priority-based spend and other areas.

Sometimes, taking tough decisions with a view to long-term benefits is not always incompatible with the sort of short-term view that John Downie spoke about.

The Convener: Dr Gruer, I note that you point out in your submission that other than

"measures to reduce tobacco and alcohol consumption ... there are few other options for additional investment in health and social care services that we can be confident would prevent future ill-health or social problems in a cost-effective way."

However, in that context, Mark McAteer referred to call-outs for elderly people, which Ron Culley also touched on, and Angela Cullen talked about statins. The field of preventative action that you describe seems somewhat narrow. Given that the approach has a budget of more than £10 billion a year in Scotland, surely there must be other areas in which preventive spending can impact in a positive way.

Dr Laurence Gruer (NHS Health Scotland): The issue arose when we started to focus on the particular interventions and the costs. NHS Health Scotland has recently begun a programme of work to examine cost effectiveness and has been struck by how little evidence is available on it.

In my written submission, I referred to the Australian study "Assessing Cost-effectiveness in Prevention", which is a tremendous piece of work because, for the first time, it uses the same basis to assess a range of interventions. It asks what the evidence is that they actually work, for whom they work and how much it costs to get outcomes that can be measured consistently—that is, how many quality years or disability-adjusted years we get in return.

It is shocking to see how many interventions we take for granted. When we examine the inputs and outputs, we cannot determine whether the interventions work or we find that the cost effectiveness is low and we are reduced to a much smaller number of interventions that work than we would want. Many of those tend to be at the higher level, such as tackling smoking or alcohol, or to be more politically sensitive interventions, such as the taxation of food.

We would all like to be certain that community-led interventions produce good results but, four or five years ago, NHS Health Scotland did a review of all the evidence that it could find on such interventions for the community-led task force and could not come up with any evidence that showed that they would definitely lead to improvements.

When I worked in Glasgow, we were involved with the starting well intervention for young, vulnerable kids in deprived areas. In many ways, it looked like a good intervention but, despite input that was probably more than we could afford to roll out across Scotland, the team found it difficult to identify the families who were most in need at an early stage and, when the whole programme was assessed and the outcomes evaluated, very little impact was found.

The results were similar when we evaluated the have a heart Paisley programme, which aimed to reduce cardiovascular disease. It, too, was an attractive programme with a lot of community input, but we were not able to show that it definitely led to a reduction in heart disease and fewer heart attacks in the area, which is what we were looking for.

On the other hand, when we evaluated the smoking ban, we were amazed to see what a large impact it had throughout the country over a short time on admissions for heart attacks, which reduced. The reduction in childhood admissions for asthma was probably even more surprising. They reduced probably not only because the ban reduced the exposure of kids to smoke in public places—we do not really see too many kids in pubs—but because it modified the behaviour of parents, who suddenly realised that breathing smoke on other people was bad for those people and changed their behaviour at home and also, potentially, in their cars.

That was a dramatic indication that interventions on smoking still have a massive potential for preventing ill health across the whole population. Smoking is the biggest driver of health inequalities in deprived communities in Scotland, because they have much higher rates of it.

The big issue is how we go about persuading and helping people to stop smoking. In deprived areas and disadvantaged circumstances, it is quite difficult for those who are addicted to cigarettes to come off them, because there are so many other things to deal with. However, over the past 50 years, the smoking rates among men in the most deprived areas in Scotland have halved. That is much less than in the more affluent areas but, nevertheless, many men in Scotland have stopped smoking, which is narrowing the difference in life expectancy between men and women in Scotland over the years.

12:30

We need to focus smoking-cessation services on deprived areas, doing all that we can to encourage people to stop smoking. There will be benefits in healthcare outcomes, but there will also be quick benefits for individuals and their families. If someone spends more than £2,500 a year on fags, and we can encourage them to stop smoking, that money will be released and could, we hope, be spent on much less unhealthy things for them and their families.

The evidence strongly supports a range of measures to tackle alcohol misuse, which has such a big effect on our most deprived communities. Having taken account of the evidence, NHS Health Scotland has strongly supported minimum pricing. On one level, the policy could be regarded as regressive, because it could make alcohol more expensive for people who have little money. However, if the policy can encourage people not to spend more on alcohol—or to spend the same amount but to drink less—it could have a major effect in our more deprived areas.

Despite the desire to make preventive community interventions, it is difficult to obtain evidence on the effectiveness of such interventions. When reading the committee's papers, I was struck by the absence of detail on what preventive spend really means. What exactly are we going to do? The answer to that question makes all the difference. The Australian study shows that, although a range of measures can be taken to improve mental health, some are pretty cost effective but others are a waste of money.

We have to be careful about the idea that preventive spend is always a good thing, and we have to be specific and focus on what we want to do—asking who is going to do it, for what and when. If we do otherwise, we might dilute all our efforts and lose our opportunity. If, in order to spend on preventive measures, we stop taking some other measures that are fairly effective, we might end up with poor results, if the preventive-spend choices are not particularly effective.

As has been mentioned in the committee's papers, NHS Health Scotland is keen to build up support in local areas and to offer guidance on the best areas in which to develop preventive spend. To pick up on what John Downie said, we must find ways of evaluating measures, so that we can be clear that what we are doing is worth the money. If we do not do that, we will not be in a position to make good decisions. We have to know whether what we are doing is worth it or whether we should stop doing it and start doing something else. We need information based on good evaluation.

Members of the committee might well know the keep well programme. Across the country, it is one of the flagship programmes for reducing cardiovascular disease in deprived areas. Unfortunately, although the programme has been running for four years, we do not have evidence to allow us to say whether it is reducing cardiovascular disease. We are therefore introducing a new set of studies that we hope will take us down that road. A problem has been that different areas are interpreting the keep well idea in different ways. Sometimes, we do not know whether the essential ingredient, as it were, of the intervention is still there; some areas will still have it, but others will have lost it. We can end up not knowing whether all our inputs to a programme such as keep well are giving us the results that we are all looking for.

The Convener: Having proposed the bill on the smoking ban originally, and having chaired the cross-party group in the Scottish Parliament on tobacco control for eight years, I find much of what you say to be music to my ears.

However, I have a number of concerns—particularly over what seems to be the narrow focus of your paper. There is screening for breast cancer, and people are encouraged to go for bowel cancer screening and prostate screening. Such measures must have had a preventive impact, I would have thought, and that impact must have been assessed.

The committee has also heard a lot of evidence on the effectiveness of family-nurse partnerships, and I understand that they are being rolled out. Your paper says that

"diet and exercise programmes for overweight people in primary care would contribute little additional health gain."

Even if such programmes do not make people live that much longer, their quality of life would surely be better if their morbidity was reduced. Surely that is self-evident.

Laurence Gruer: That might be the case, and I am very much in favour of measures to help people to lose weight. We tend to find, however, that community interventions result in very small amounts of weight loss in only a small proportion of people. Typically, once the intervention stops—they tend to have a limited life—people's weight goes back up again, so they are left hovering at the same level as they were at before, despite the fact that a lot of people have gone into the programme and tried very hard.

Many people understandably hold up their hands in horror at much more radical measures, such as gastric banding, which is a really big deal. However, the facts are now emerging that it is far more effective and results in something like a 20 to 25 per cent weight loss in most people, whereas the primary care interventions give only something like 2 per cent weight loss, a lot of which is short-lived. The big problem with gastric banding is that it is very expensive because a big infrastructure has to be set up with surgeons, nurses, operating theatres and so on, but it looks as if it is far more likely to be cost effective in the long term because those who go through gastric banding are much less likely to get diabetes or heart disease and are more likely to maintain lower weight once they have their gastric band. It looks as if there is a big payback in the long term from gastric banding, whereas—unfortunately, and much as I would like to say otherwise—the community-based interventions do not give that payback.

I have had very little time to produce my submission, so it is limited in many respects. There is no doubt that a range of screening interventions are worth doing. Cervical screening and breast screening are definitely effective, although there is still controversy around at what ages and how often it should be done because those factors make a big difference to the outcomes.

Which other issues did you mention?

The Convener: I also mentioned prostate screening and family-nurse partnerships.

Laurence Gruer: Prostate screening is highly controversial at the moment; there is no evidence that it is worth doing. The screening often gives false positives, so the doctor tells a guy that his level is raised and he should have a check up, which could end up in an operation, but the person would not have developed cancer at all. The Australian studies on cost effectiveness came out firmly against that way of doing things.

Family-nurse partnerships have been shown to be cost effective in the United States, which is one of the reasons why we are taking them on here. However, we have to recognise that levels of community support in areas of the United States where the partnerships were introduced might not have been as good as what we have in Scotland; we already have health visitors and a lot of other social support. Although family-nurse partnerships are a runner as a worthwhile intervention, it is too early for us to know whether introducing them in Scotland would be cost effective, and whether we could afford to roll them out across the whole country, which would mean employing a host of new staff who might have to be taken away from other work.

I am hopeful that family-nurse partnerships and other initiatives such as the positive parenting programme will make a difference but we are still at an early stage. Health Scotland is in the process of reviewing those different types of early intervention to see which might be the best to recommend.

The committee should also remember that it is not just about whether an intervention works well in theory or whether it has worked well in a research situation, but about whether it will still work as well when it is handed over to an average, ordinary primary care or other service. The quality of a service tends to diminish when it is rolled out, because not everyone has the same commitment to it. Therefore, the cost effectiveness of a service that has been rolled out is often less than was demonstrated in the research situation.

The Convener: We have heard evidence from a number of organisations from other parts of the UK, including Birmingham City Council, that family-nurse partnerships are by far their most effective intervention, full stop.

I must let other members in.

John Mason: Dr Gruer's comments are interesting. Obviously, there seems to be a clear benefit from all the anti-smoking measures, although I think that Dr Gruer expressed concern—which I share—about how we put the approach into practice.

Laurence Gruer: Yes.

John Mason: I have questions about that. The Government response, in discussing the definition of preventative spending, states:

> "Accordingly, boundaries should not be drawn too tightly around what constitutes preventative spending or a preventative approach, and our working definition is broad".

I throw that out for discussion. I understand where the Government is coming from and agree that we do not want to be too prescriptive. On the other hand, if virtually everything is preventative spending, I wonder where that takes us in practice—which is maybe the point that Dr Gruer is making. With gastric banding, my gut feeling is that it is not preventative spending but totally reactive spending, although I acknowledge that it has an impact on prevention later on.

Mr Dorward, I think, made the point that services need to be joined up. He said that we should consider what services we need and then the money will tag along later. As an accountant—I am the third person to admit to that today—I have slight reservations about that, because all individuals and organisations live within budget constraints. Even if services are joined up, there will still be constraints and we will have to consider what we can do in the situation, not what we would like to do.

My final point to throw in relates to the question of respect for the third sector. I am delighted that the relationship is working well in Dundee, but in my constituency there are two citizens advice bureaux that could be closed a month from today, although I would have thought that spending on those is good preventative spending and a good way of helping people before they hit problems. Something is not working somewhere. I feel that we have a long way to go, in practice.

John Downie: I will begin by picking up on Gavin Brown's point about the change fund and then I will perhaps mention John Mason's final point.

Our analysis of the change fund plans is cursory because, as I said, the plans came in only last Friday. There was a small but significant increase in the allocation for preventive spend, from 19 to 22 per cent. That is the average, although one local authority has increased its allocation from 31 to 40 per cent, whereas another that had 37 per cent last year has reduced its allocation to 13 per cent. Overall, 10 of the change plans that we looked at involve spending more than 30 per cent on prevention, while the others involve less than the 22 per cent average. However, within that, one local authority that spent only 3 per cent last year is spending 13 per cent this year. There are changes and, obviously, the devil is in the detail. When we have gone into more detail on the councils' spending, I will be happy to submit our findings to the committee.

There is an issue about what preventive spending is in reality, and how we define it. Many workstreams need more interrogation by us, COSLA and others so that we understand, and can say definitively, whether they are about prevention and measures that will help prevention.

I would have thought that, in this day and age, evaluation would be built in to any investment, whether it is by the Scottish Government, a local authority, a third sector organisation or an NHS board. It should be built in from the start, because we need evidence to make good decisions. We can find such evidence from the third sector. The report that I mentioned on the Impact Arts craft cafe programme showed that the independently estimated return on investment is £8 per £1. The programme has tackled many harmful behaviours among older people who were suffering social isolation—it has reduced their smoking and drinking and has improved their diet. That means less cost to the NHS and the local GP. That is a small pilot programme, which we hope to roll out in other areas. A lot of things are working; we need to build on them, which requires the sharing of good practice and working with others.

We have been talking to a number of agencies and organisations in the sector, not about a new body, but about a third sector improvement service. Mark McAteer and his colleague Colin Mair have offered all the Improvement Service's tools to third sector organisations. There is a lot of good practice out there on how to help organisations to improve their evaluation and their local impact, but it is not being shared; we are not building on and learning lessons from what works. I include regulators as well as third sector organisations.

John Mason made a clear point: the Scottish Government's definition of preventative spend is far too broad and it needs to be clearer about what it means. That will help agencies and organisations to be clear about what they can spend and what that spending is about. The definition needs to be tightened up.

12:45

Mark McAteer: I would like to pick up on a couple of the points that Laurence Gruer and John Downie made about the sharing of good practice on evaluation and so forth. Sometimes we look for simple answers to highly complex questions. The idea is that there must be good practice out there and that all we have to do is go and find it and implement it in our organisations—in other words, it is a case of discovering the magic bullet.

In looking around the globe for best practice, we typically find that projects report successful evaluations in this way: "We set out to do X, we did X and people liked X, therefore that is good practice, which should be picked up and implemented in all our organisations." The trouble is that, when we do want to find out whether the project had a sustainable impact and whether, over the longer term, it genuinely delivered the results and outcomes that we were hoping for, we often do not find such a trend impact analysis, so it becomes highly questionable whether it was a good, cost-effective intervention in terms of outcome. That is why Laurence Gruer is absolutely right to suggest caution; we should be cautious about what initially appears to be good practice. We have to go beneath the surface to see whether an intervention has had a genuine impact.

It is often difficult to replicate results. It is not just a case of what worked; the question that we have to ask is why it worked and—this is fundamental—whether the circumstances can be replicated across different projects in other contexts. Last year, we worked on a project on outcome budgeting. We worked with two community planning partnerships in Fife and Aberdeen to look at how they work collectively with their budgets against their outcomes. We found that people did not understand what their outcomes meant to them in practice. They were good and bold aspirational statements, but people were not sure what they meant in day-to-day terms and, as a result, were not sure what they should do.

We also discovered that there was no common performance framework across the partner bodies so, even if progress was being made against the outcomes, no one could be sure that it was being made, because there was no common understanding of how to measure or of what was being measured. We also had problems with system incompatibilities. The finance systems in some of the partner bodies simply did not talk to one another, so even when people wanted to share resources, it was difficult. On top of that, there is the issue of how to do joint planning on resources, which Angela Cullen mentioned.

We can take the learning from that project and work with another 30 partnerships across Scotland, but we will not be able to replicate the results, because although every partnership will have common problems and, therefore, potentially common solutions, each partnership will have particular problems. When it comes to best practice, it is not simply a case of passporting something from one area to another; it is about having people who can go in and support, challenge and facilitate, and who can help organisations to use that best practice in a way that works for them and, more important, in a way that works for the communities and the service users with whom they are trying to work.

There is another aspect that we have not spoken about enough on preventative spending and early intervention. Where is the customer in all this? I have yet to hear a discussion about what the customers want and—if we are talking about outcomes—how we can intervene to support them in ways that will make their lives better. Very often, we still talk about doing things to people, as opposed to doing things with people, with communities and with families. The customer agenda is just as important as the exchange of best practice.

Ron Culley: I will pick up on a couple of themes. On the change fund and ensuring some investment in preventative spending, John Downie has spoken about the feedback in relation to this year’s plans. In addition to that, we want to focus on the change fund process, in order to ensure that partnerships are locked in locally and, indeed, nationally, so that they are accountable and resources can travel in their direction. For example, we have specifically designed the change funds to require partnership sign-off, to ensure that the voluntary and, where relevant, the private sectors can work with and—if required—hold their statutory partners accountable on the preventative agenda.

We have similar partnership focus and scrutiny at national level—a process in which John Downie, as per his earlier comments, is obviously involved. We will advance that process over the next few weeks to ensure that we are satisfied that all the partners have submitted plans in a partnership-focused way that demonstrates that the resources are beginning to shift. The joint improvement team provides us with a mechanism to support partnerships that may face challenges in relation to the preventative agenda. I understand that the Scottish Government will evaluate the change fund—we may have to get back to the committee on that—but I am pretty confident that that has been commissioned.

Mark McAteer’s comments on the more general themes of innovation, best practice and evidence were really instructive. It is inevitable that we will have to live with an element of ambiguity. The more we focus just on doing things that have a strong evidence base, the less scope there will be for innovation and change but, equally, we do not want to innovate without assessing the impact that it would have. We have to take account of that creative tension.

Finally, Mark McAteer’s point about the customer agenda—or, as Elaine Murray put it, how we bring people with us—is extremely important and one on which we have not yet succeeded. For example, one of my elected members, who speaks eloquently about the shifting balance of the care agenda and is fully signed up to it, came under pressure in his locality to sign a petition against the closure of a community hospital. He eventually did so, because politically it was the right decision, but it was against everything for which he had argued for four years. We can attend to such challenges through political and other leadership.

To return to Mark McAteer’s point and that which John Downie made at the beginning of this meeting, if we can turn the whole agenda into an empowerment agenda in which there is community ownership whereby people understand the services that are available to them and have ownership of them—an assets-type approach—that would help us some way along this journey. That is the bit on which we have failed completely, as far as I can see.

The Convener: It is seven minutes to one and four people still wish to speak. Once they have done so, we will have to finish the meeting.

David Dorward: On Laurence Gruer’s point about the family-nurse partnerships, we have one in Tayside, where Dundee is predominant. I agree with Birmingham City Council’s view that it is the best tool in the box at present. I know that the process is at an early stage.

I visit primary schools in deprived areas—Mark McAteer's point is relevant in this—and we must listen to what people in such communities have to say about what services they require. It is not often that we have an open debate about the subject, but we have started going to the pubs of Lochee to ask people not what services we are giving them—it is all too easy to do that—but what services they need.

We are taken by Harry Burns's views on the early years—the earlier the intervention, the better—so we and health staff are focusing on pre-birth. On funding, when I pool my budget with the health board, I know that some of the benefits will not necessarily come back to the city council and the services that we provide, but we have to look at the community in its wider sense, and not just at the agencies that support it. There is a real culture change happening in the public sector and the voluntary sector in that respect.

Leadership is key. I am waiting for the May elections so that I will have an administration that will be in power for a long period. We then need political leadership and leadership from the senior officers. I do not like the national initiatives that come in because they are done as pilots, then we have to roll them out, someone has to look at how to fund them and they are not embedded in the communities that we spoke about.

I rather like the ground-up approach, in which we speak to communities, find out what has happened in other areas, present that to them—"Here are our options"—and find out what they would like to introduce in their area. There is a far better chance of that becoming embedded, and it will be sustainable—it will be there in four or five years.

My meetings with primary school teachers depressed me in a way, because the teachers said that what they need is more intensive family support. Parenting skills that we might have known a generation ago are just not there now. Intensive parenting support for families is needed within schools. That is real early intervention. We might not see the benefits in one year or two, but we will see them in the future. That is the level at which we must put in the change fund money.

Angela Cullen: I will keep it short because Mark McAteer has covered what I was going to say.

In response to Mr Mason's point about tightening budgets and which comes first, the decision or the money, we find in a lot of the work that we do that the cost information that would help to inform decisions is not there.

I agree with Mark McAteer about performance information. A lot of individual projects or interventions do not necessarily know what outcomes they are trying to achieve in the first place. There are difficulties if they do not know their incomes, their current performance, how to measure their performance or the cost of what they are delivering or what they might deliver. We make a plea for that information to be available. We appreciate that it takes time to pull together, but it would help the cost-effectiveness and evaluation.

All this will take time; prevention is long term in nature. Laurence Gruer mentioned the keep well programme. Four years on, we still do not know whether the programme is effective or whether it is what we would have expected. Some things take a long time to show their impact. The issue is to stick with the interventions, projects and policies to see whether they make a difference in the longer term.

Paul Wheelhouse: I want to pick up on something that Mark McAteer said. We have taken evidence on the national performance framework and the single outcome agreements and how those flow through. We are putting a lot of emphasis on the role of community planning partnerships. One of the things that stuck out like a sore thumb was the disconnect between the single outcome agreements, the national performance framework and the health improvement, efficiency, access and treatment targets, which seem to be a bit of a barrier to collaboration between local authorities and NHS boards. That is not to say that collaboration is not happening—we have heard that Highland Council is collaborating well with NHS Highland—but I just want to raise that concern. Do we have to do something quite fundamental to change the targets by which our health partners are being measured?

Laurence Gruer: On a positive note, you might have seen in the press that the *Evening Times* Scotswoman of the year is Dr Mary Hepburn. She is a glowing example of the sort of thing that we are looking for. Over the past 20 years, she has run a service in Glasgow to help pregnant women who have drug or alcohol problems. The service is a tremendous example of collaboration between the health service and social services. It intervenes at an early point in pregnancy for women who probably have the most intense problems that we can imagine and helps them through in a very personalised way. The service works with the social work department to produce outcomes that are far better than would otherwise be the case.

That is the sort of example we are looking for here: leadership in the form of a person such as

Mary Hepburn, and a carefully designed service that is working closely with the community, overcoming stigma, dealing with people who are most at risk and achieving highly commendable outcomes that are highly regarded throughout the world and are seen as best practice.

The Convener: I thank everyone for their helpful participation and contributions.

Meeting closed at 13:00.

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

Members who wish to suggest corrections for the revised e-format edition should e-mail them to official.report@scottish.parliament.uk or send a marked-up printout to the Official Report, Room T2.20.

The deadline for corrections to this edition is:

Wednesday 7 March 2012

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 available
ISBN 978-1-4061-8420-4

Printed in Scotland by APS Group Scotland