

## **FINANCE COMMITTEE**

### **DRAFT BUDGET 2014-15**

#### **SUBMISSION FROM THE ROYAL SOCIETY OF EDINBURGH**

##### **Summary**

- The RSE believes the provision and reform of public services should be driven by an “outcomes-based” approach, i.e. an approach that focuses on what services are to be delivered and what those services are designed to achieve. We support and endorse the outcomes-based model of the National Performance Framework (NPF). It is an ambitious and important mechanism in driving efforts to provide a more integrated approach to the delivery of public services in Scotland. Scotland Performs is already being viewed internationally as an exemplar of an outcomes-based approach in the measurement of government performance.
- The long-term nature of many of the desired outcomes set out in the NPF requires annual information on the cost, activity and quality of services delivered. While the Scottish Government does provide an annual report on its progress against the national indicators contained in the NPF, this does not make a direct link between spending allocations and performance. In order to be able to fully assess the effectiveness and efficiency of government performance, it is crucial that these connections are made within the structure of the NPF.
- Following on from this, it must be ensured that the NPF is fully integrated in the Scottish Government’s spending plans and the budget setting process. This is essential if the NPF is to meet its stated overarching objective of underpinning the delivery of the Government’s agenda. We fully support the Finance Committee’s view that the NPF should be embraced within the Scottish’s Government’s spending plans.
- Each of the national indicators within the NPF appears to be afforded equal status. While the long-term objective will be to make progress on all of them, this will be challenging given the continuing constraints on public spending. It is therefore important that a more strategic approach is developed that enables the NPF to act as a mechanism through which choices between priority areas can readily and objectively be made.
- The realisation of the full potential of the NPF will be dependent upon there being systematic integration of local priorities with the NPF.
- We are concerned at the absence of external input into the processes that form the basis of the NPF. There is a need to strengthen the NPF by including mechanisms for independent assurance of data quality and the matching of data to the measures used in the NPF. This assurance should be provided by an independent body. The Finance Committee should explore whether Audit Scotland’s role could be extended to fulfil this role. Such external input should make the NPF more widely perceived and valued as an objective assessment of Government performance.

- There is an overriding aim to ensure that the NPF is a central part of the Parliament's 'holding to account' of the Executive and that the NPF data is used more effectively in the budget process. If Audit Scotland's remit were to be extended as we suggest -, to maintain the perceived objectivity and integrity of the audit process - then the duty of interpreting the meaning and significance of the evidence should not rest with the auditors. It should reside elsewhere. A commission, appointed by, and accountable to, the Scottish Parliament could consider the evidence and make reports in public to the Parliament. A parliamentary committee (or committees) could be charged with receiving and considering these reports, with the committee holding the Executive to account and determining any policy and budgetary implications. This would facilitate more informed, higher quality debate on the NPF and associated spending plans; and add to the value obtained from the NPF process in enhancing the cost-effectiveness of Government expenditure.
- It is notable that there has been limited opportunity for those outwith Government and the public sector to influence the development of the NPF and Scotland Performs. This not only applies to external technical input and analysis, but also to engagement with the public. We understand the Scottish Government has been considering launching a communication strategy to explain the NPF to the public.<sup>1</sup> We believe that this should be taken forward as soon as possible. However, it should not be restricted to providing the public with information on the NPF. It is important that a process of deliberative dialogue is initiated to ensure that civic society is engaged in the development of the NPF.

## Background

1. The Royal Society of Edinburgh (RSE), Scotland's National Academy, welcomes the opportunity to respond to the Scottish Parliament Finance Committee's consultation on the Scottish Government's National Performance Framework (NPF). We understand that this is being undertaken as part of the Finance Committee's scrutiny of the Scottish Government's draft budget 2014-15, which will be published in September. The role of the Finance Committee, with its responsibility for scrutinising and challenging the Scottish Government's spending plans and draft budget, is a crucial one. This response has been prepared by an RSE working group with appropriate expertise and experience in matters relating to the Scottish economy. We comment on both the principles and operation of the NPF. We would be pleased to discuss further any of the comments made in our response with members of the Finance Committee.
2. It is the RSE's view<sup>2</sup> that provision and reform of public services should be driven by an "outcomes-based" approach, i.e. an approach that focuses on what services are to be delivered and what those services are designed to achieve. We support and endorse the outcomes-based model of the NPF and the publicly accessible reporting on, and tracking of, performance, as presented on the

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<sup>1</sup> SPICEe Financial Scrutiny Unit Briefing (12-12) on The National Performance Framework and Scotland Performs; February 2012

<http://www.scottish.parliament.uk/parliamentarybusiness/46715.aspx>

<sup>2</sup> RSE Advice Paper 13-02 [http://www.royalsoced.org.uk/cms/files/advice-papers/2013/AP13\\_02.pdf](http://www.royalsoced.org.uk/cms/files/advice-papers/2013/AP13_02.pdf)

*Scotland Performs* website.<sup>3</sup> The NPF is an ambitious and important mechanism in driving efforts to provide a more integrated approach to the delivery of public services in Scotland. Since its introduction in 2007, government bodies are expected to frame their strategic objectives in the context of the NPF. This provides for greater strategic consistency and integration across what is a fragmented delivery landscape. We recognise that the NPF is evolving and this is evidenced by the “refresh” which was undertaken in 2011. *Scotland Performs* is already being viewed internationally as an exemplar of an outcomes-based approach in the measurement of government performance. We therefore focus our response on ways in which we believe the NPF and *Scotland Performs* can be enhanced.

### **The need to link expenditure to performance and embed the NPF within spending plans**

3. The long-term nature of many of the desired outcomes set out in the NPF requires annual information on the cost, activity and quality of services delivered. While the Scottish Government does provide an annual report on its progress against the national indicators contained in the NPF, this does not make a direct link between spending allocations and performance. Audit Scotland<sup>4</sup> has stated the need to relate outturn spending to resource allocation and performance targets. Such linkages are crucial for both the Government itself and for the bodies which hold it to account to be able to evaluate the impact of spending decisions. In order to be able to fully assess the effectiveness and efficiency of government performance, it is crucial that these connections are made within the structure of the NPF.
4. In making the connection between spending and performance, it must be ensured that the NPF is fully integrated in the Scottish Government’s spending plans and the budget setting process. This is essential if the NPF is to meet its stated overarching objective of underpinning the delivery of the Government’s agenda. An approach that sets out spending allocations without taking full account of the economic and social framework within which the allocations are being set is flawed. We recognise that the Finance Committee has questioned the Government on the extent to which this integration exists. We fully support the Finance Committee’s view that the NPF should be embraced within the Scottish’s Government’s spending plans.
5. A more strategic approach is required that enables the NPF to act as a mechanism through which choices between priority areas can readily and objectively be made. The RSE has consistently argued that all central policies need to be re-evaluated with a view to determining what is essential to the Scottish public and economy. This requires a full cost-benefit analysis of policy options to be undertaken. Each of the national indicators within the current suite appears to be afforded equal status. While the long-term objective will be to make progress on all of them, this will be challenging given the continuing constraints on public spending. There may also be instances where improved performance in an area

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<sup>3</sup> <http://www.scotland.gov.uk/About/Performance/scotPerforms>

<sup>4</sup> Scotland’s Public Finances: Preparing for the future; Audit Scotland; November 2009  
[http://www.audit-scotland.gov.uk/docs/central/2009/nr\\_091105\\_scottish\\_public\\_finances.pdf](http://www.audit-scotland.gov.uk/docs/central/2009/nr_091105_scottish_public_finances.pdf)

may have negative consequences for other indicators. It is therefore important the NPF is developed so that it provides a strategic context in which priorities can be identified and set. This will be essential if the NPF is to be a tool which can influence the formation of policy.

6. We note that as part of its evolution, *Virginia Performs*, the model upon which *Scotland Performs* is based, has implemented an online performance budgeting system which strengthens the links between performance and budgeting. We recommend that the Finance Committee explores this development with a view to determining how it might be replicated to strengthen *Scotland Performs*.

### **The need for national and local policy integration**

7. As we have indicated in the introduction of this response, the NPF is a mechanism by which greater strategic consistency could potentially be achieved across the public sector in Scotland, including a more joined-up approach between national and local government. However, the recent work of the Carnegie UK Trust<sup>5</sup> has indicated that while there is a clear link between the NPF and the Single Outcome Agreements, the extent to which the logic of the NPF approach is actually being applied at local level is less clear. We suggest the Finance Committee explore this issue. The realisation of the full potential of the NPF will be dependent upon there being systematic integration of local priorities with the NPF.

### **The need for external input and independent assurance of data quality and validation of the processes used**

8. The SPICe briefing on the NPF and *Scotland Performs*<sup>6</sup> indicates that the national indicators used in the NPF were developed and carefully chosen by the Scottish Government with input from the wider public sector. It also appears to be the case that it is the Scottish Government which sets the thresholds for each indicator. The data used is primarily from Scottish Government. The SPICe briefing points out that in relation to the choice of measures used to assess performance, *Scotland Performs* does not explain why certain measures have been chosen over other potential measures. We are concerned at the absence of external input into the processes that form the basis of the NPF. It is our view that this has contributed to the NPF not being seen as an instrument of popular assessment of Government performance. There is a perception in some quarters of it being a tool to internally manage Government performance.<sup>7</sup>
9. We understand that performance against targets is assessed by measuring change between the latest two dates for which data is available.<sup>8</sup> While it is important to be able to compare performance over time, it is not clear what baselines are used or whether account is taken of how Scottish performance

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<sup>5</sup> Shifting the Dial in Scotland; How Scotland Performs on wellbeing and what it should do next; Jennifer Wallace, Policy Manager; Carnegie UK Trust; June 2013  
<http://www.carnegieuktrust.org.uk/publications/2013/shifting-the-dial-in-scotland>

<sup>6</sup> Ibid. 1

<sup>7</sup> Ibid. 5

<sup>8</sup> Ibid. 1

compares in relative terms to that of other countries. For example, in relation to international surveys of school performance, while Scotland's performance puts it among the world's higher achieving systems, it is clear that many other systems are improving faster.<sup>9</sup> We believe that the current approach to assessing performance would be strengthened by maintaining and developing international comparators of "best in class" as part of the NPF. In doing so, account will need to be taken of the different ways in which data will be collected in different countries and the challenges associated with translating standards from one culture and system to another.

10. We believe the points made in paragraphs 8 and 9 demonstrate the need to strengthen the NPF by including mechanisms for independent assurance of data quality and the matching of data to the measures used in the NPF. This assurance should be provided by an independent body. The Finance Committee should explore whether Audit Scotland's role could be extended to fulfil this role. Audit Scotland has had long experience of attempting to validate performance data (for example, the expectation that Audit Scotland might provide assurance on reported efficiency savings) and the validation generally has taken the form of caveated assurance of the systems used to collect and present the data. It will be important to recognise the limits to the assurance which can be provided by auditing processes. We return to this in paragraph 12. Consideration would also need to be given to the additional resources that Audit Scotland would require to undertake the extended role we have suggested.

### **Strengthening Parliamentary scrutiny**

11. The overriding aim is to ensure that the NPF is a central part of the Parliament's 'holding to account' of the Executive and that the NPF data is used more effectively in the budget process. We note that the Scottish Government is not required to report to the Parliament on the information in *Scotland Performs*. The Carnegie UK Trust report<sup>10</sup> recommends that Parliamentary accountability could be strengthened by embedding the NPF in legislation. While this option should be considered, it can be argued that the Scottish Parliament and Government occasionally resort to legislation where intentions could be achieved by other means.
12. If Audit Scotland's remit were to be extended as we suggest - to maintain the perceived objectivity and integrity of the audit process - then the duty of interpreting the meaning and significance of the evidence should not rest with the auditors. It should reside elsewhere. This holding to account might properly be undertaken by parliamentary committees. Committees, however, generally have heavy workloads. They may not always have the skills and expertise to consider properly and comprehensively the evidence and make informed judgements, and they may be unable to find the time to sustain a process which involves revisiting performance issues year-on-year. In relation to the current arrangements for holding local authorities to account, Audit Scotland (through

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<sup>9</sup> By Diverse Means: Improving Scottish Education; Final Report from the Commission on School Reform; Reform Scotland and the Centre for Scottish Public Policy; March 2013

<http://reformscotland.com/public/publications/bydiversemeans1.pdf>

<sup>10</sup> Ibid. 5

the controller of audit function) provides the objective evidence while the Accounts Commission considers the evidence and makes the judgments in the form of public reports. This successful model might be adopted in modified form to apply to the NPF evaluation across the whole of the public sector. A commission, appointed by, and accountable to, the Scottish Parliament could consider the evidence and make reports in public to the Parliament. A parliamentary committee (or committees) could be charged with receiving and considering these reports, with the committee holding the executive to account and determining any policy and budgetary implications. This would facilitate more informed, higher quality debate on the NPF and associated spending plans; and add to the value obtained from the NPF process in enhancing the cost-effectiveness of Government expenditure.

### **Engagement of the public in the development of the NPF and Scotland Performs**

13. Paragraph 8 makes it clear that there has been very limited opportunity for those outwith Government to influence the development of the NPF and *Scotland Performs*. This not only applies to external technical input and analysis, but also to engagement with the public. While *Scotland Performs* is an excellent online resource which brings together the most up-to-date information available on how Scotland is performing, unless people are aware of its existence, it will not fulfil its potential. We note that when the NPF was refreshed in 2011, a number of the indicators were simplified to make them more understandable and accessible. This would have been a timely opportunity to engage with the public. However, it is notable that the public have not been engaged in the development of the NPF. We understand the Scottish Government has been considering launching a communication strategy to explain the NPF to the public.<sup>11</sup> We believe that this should be taken forward as soon as possible. However, it should not be restricted to providing the public with information on the NPF. It is important that a process of deliberative dialogue is initiated to ensure that civic society is engaged in the development of the NPF. This would not only raise the profile of the NPF, it would assist in developing the NPF as a tool which can be used to identify priorities in the formulation of policy.

### **Externalities**

14. We recognise that there are limitations on the extent to which Scottish Government interventions can influence performance measures. This is particularly the case in relation to global economic factors and drivers which will inevitably be outwith the direct influence of the Scottish Government. We note that in *Virginia Performs*, state influence is assessed against each of the performance measures. We suggest that this would be a useful addition to *Scotland Performs*. If Audit Scotland is given an extended role as outlined in paragraph 10, this could include providing an independent judgment on the extent of Scottish Government influence on the performance measures in *Scotland Performs*.

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<sup>11</sup> Ibid. 1

### ***Additional Information***

Advice papers are produced on behalf of RSE Council by an appropriately diverse working group in whose expertise and judgement the Council has confidence. This Advice Paper has been signed off by the Chair of the group and by the General Secretary.

In preparing this Advice Paper we would like to draw attention to the following RSE responses which are relevant to this subject:

- The Royal Society of Edinburgh's response to the Scottish Parliament's Local Government and Regeneration Committee on Public Services Reform (January 2013)
- The Royal Society of Edinburgh's response to the Scottish Parliament's Finance Committee on the Scottish Government's Draft Budget 2013-14 (August 2012)
- The Royal Society of Edinburgh's response to the Scottish Parliament's Finance Committee on Fiscal Sustainability: Demographic Change and Ageing Population (August 2012)
- The Royal Society of Edinburgh's response to the Scottish Parliament's Finance Committee on the Scottish Government's Spending Review 2011 and Draft Budget 2012-2013 (October 2011)