ACCOUNTS COMMISSION AND AUDITOR GENERAL FOR SCOTLAND

SCOTTISH PARLIAMENT LOCAL GOVERNMENT AND REGENERATION COMMITTEE

INQUIRY INTO PUBLIC SECTOR REFORM AND LOCAL GOVERNMENT IN SCOTLAND: STRAND 3 (DEVELOPING NEW WAYS OF DELIVERING SERVICES)

WRITTEN SUBMISSION BY THE ACCOUNTS COMMISSION FOR SCOTLAND AND THE AUDITOR GENERAL FOR SCOTLAND, PREPARED BY AUDIT SCOTLAND

Introduction

1. The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of resources. The Auditor General for Scotland is responsible for investigating whether the Scottish Government and most other public bodies other than local authorities achieve the best possible value for money and adhere to the highest standards of financial management. Audit Scotland is the public sector audit agency which undertakes the external audit of the majority of public sector bodies in Scotland on our behalf.

2. We welcome the invitation to submit written evidence to assist the Local Government and Regeneration Committee’s inquiry into public sector reform and local government in Scotland. We previously submitted evidence to the Committee covering all three strands of your enquiry into public services reform. This response focuses in particular on strand 3 (developing new ways of delivering services). It draws on our previous submission and draws on evidence from our audit work but expands on and updates the points previously made.

Overall comments

3. There is a growing consensus that significant change is needed in the design and delivery of public services to respond to rising demand due to demographic change and public expectations, and the deep-rooted social problems that affect many parts of Scotland, against the background of the financial pressures that will persist for the foreseeable future.

4. The Accounts Commission and the Auditor General have published a number of reports recently that concern, directly or indirectly, the development of new ways of delivering services such as Scotland’s public finances: addressing the challenges and Arm’s-length external organisations (ALEOs): are you getting it right? In addition, the Scottish Government has previously commissioned research in this area.

5. Major themes emerging from these reports include:
   - There is a need to integrate public services better and ensure that they are designed around the needs and expectations of the people who use them.
   - When public sector organisations work well together there can be real benefits to service users, communities and the organisations themselves. For that reason,

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1 All of the reports referred to in this evidence can be downloaded from Audit Scotland’s website at http://www.audit-scotland.gov.uk
more systematic, joined-up approaches to planning and resourcing services are required to ensure that the best use of collective public money is achieved.

- Progress in delivering shared services has been slow, with barriers including organisational structures, political leadership challenges, compatibility of systems, staff terms and conditions and funding streams.
- Public bodies need to demonstrate a clearer focus on integrating local public services, align resources toward agreed priorities and improve their understanding of the costs of delivering agreed outcomes.
- A more fundamental priority-based approach to the delivery of public services is required which allocates money and resources to those services or areas which make the greatest contribution to delivering agreed outcomes. This approach would help managers, board members, non-executive directors and elected members be clear about desired outcomes and take decisions about where reductions in spending should be made against a clear background of the consequences of those decisions.

6. A consistent theme across our audit reports is the scope for better partnership working and new models of service delivery to deliver better outcomes for local communities, but this will require:

- changes in leadership practices and behaviours across the public sector
- clearer and more robust governance and accountability arrangements
- better information on the cost, quality and effectiveness of local services
- a clearer focus on breaking down barriers to change, and
- a stronger focus on impact and outcomes for local people than has hitherto been the case within CPPs and across public services more generally.

7. We do not underestimate the challenge in making these changes, particularly at a time of reducing resources. Strong leadership will be required over the next few years as difficult decisions will need to be made about the future shape and role of public services

Response to the Committee's call for evidence

8. This section of our submission draws on the key findings from recent audit reports which relate to developing new ways of delivering services.

Strand 3 - Developing new ways of delivering services

9. The financial pressures facing public services and the strong messages within the Christie Commission report about the need to redesign public services with a clearer community and citizen focus, and a stronger emphasis on prevention to reduce negative outcomes, present a challenging agenda for public sector leaders in Scotland.

10. New models of service delivery and alternative business models are not a recent development. The repeal of compulsory competitive tendering and the introduction of Best Value duties on local authorities in 2003 was intended to act as a spur to new ways of thinking about different models of delivering services that would make best use

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4 Commission on the future delivery of public services (The ‘Christie’ Commission report), 2011.
of resources and deliver the best possible quality of service and outcome for local people, irrespective of the sector within which the service provider operated. Best Value prompted an improved focus on continuous improvement across the public sector but was less successful in driving innovative models of service delivery. Benchmarking the cost and effectiveness of different service models remains relatively underdeveloped across the public sector.

11. *Best Value Making Choices: a manager’s guide to the strategic framework for Best Value* provided a detailed overview of how choice and competition might be used to determine appropriate service delivery models.² Despite the length of time that has elapsed since the report was produced, many of its recommendations on how, when and why to develop alternative methods of service delivery continue to be relevant.

12. The report outlines a number of options for service delivery including:
   - Improved in-house – going beyond ‘maintaining the status quo’ to make the service more economical, efficient and effective.
   - Reconfiguring – altering the way the service is delivered to improve quality and efficiency. This could be while keeping the service in-house or as the first stage towards one of the other service delivery options.
   - Joint working – organisations working together to provide services, joint commissioning from third parties, or a hybrid of the two.
   - Market testing in-house service – competitively tendering for the service with the in-house service invited to participate in the process against external providers.
   - Partnership – takes various forms and the formality of the arrangement can vary.
   - Externalisation – the body maintains a client or commissioning role and the service delivery becomes the responsibility of an external organisation.
   - Transfer – the service continues but with a totally separate organisation deciding how it is managed and delivered.
   - Hybrids – a combination of the above approaches.

13. These options, and the importance of exploring and evaluating alternative forms of service delivery, were also reflected in Best Value statutory guidance.²³

14. Shared services are not always the most appropriate model of service delivery and it is essential that robust options appraisal underpins any decision-making process. Organisations must make a reasoned choice between the range of options set out above and not treat the decision simply as one for or against in-house provision. The concept of a mixed economy approach, outlined in the report, remains valid. This means the choice of service delivery method should be clearly reviewed and justified based on the evidence available and the objectives the organisation is trying to achieve. It is also not necessary to choose a single approach to service provision and clearly there is no ‘one-size-fits-all’ model.

15. Any assessment of the potential for shared services must be based on a clear business case, having first considered and compared what might be achieved from simplifying, standardising and streamlining existing processes. Technological advances present

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important opportunities to radically rethink how public services can best be delivered. Consideration of how new technology can improve the efficiency and effectiveness of public services needs to form an important stand of the debate about the future shape and role of public services.

16. New approaches to delivering services need to be designed with the user in mind and should focus on delivering the highest quality of services within the available budgets. Local people potentially have an important role to play in public sector service redesign. The Community Empowerment and Renewal agenda that is being developed within government highlights the important role that communities can play in participating in new models of service delivery and developing models of co-production that draw upon the knowledge, skills and experience of local people in ways that maximise the impact and value of public assets (people, buildings, knowledge, etc.).

17. We believe that the public sector should consider extending collaboration and joint working to deliver more efficient and effective services in the future where there is a strong evidence based case to do so. This may include looking to alternative providers (including local communities), developing shared support service arrangements or integrated approaches to delivering front-line services. Strong local political and officer leadership is key to realising any benefits as quickly as possible. There is an interesting example where the Highland Council has set up a Challenge Fund to help communities deliver certain council services and reduce costs. It is open to community councils, community groups and established social enterprises, and will provide £1m each year for approved projects which either:

- deliver the same or a higher level of council service at a lower cost
- help to reduce the council’s costs for maintaining premises by taking on the maintenance and running costs, with a one-off fund contribution

18. A decision to pursue an alternative method of service delivery can change long-standing arrangements and can have far reaching consequences for service users, services, systems and staff. These are often very difficult decisions and elected members and other public sector decision-makers need to balance short term political objectives with longer term needs and sustainability of services and finances and the impact on people. Clarity about the improvements that any changes to service delivery models will deliver and how they will be measured and demonstrated are an essential component of effective options appraisals.

19. This is particularly so when balancing the budget relies on the savings generated from an alternative service delivery option. Decisions should be taken on the basis of good quality information and councils and other public bodies must be in a position to explain and where necessary justify actions, including where elected members and other public sector decision-makers decide to reject the recommended course of action. Where decisions are deferred or proposals are rejected without adequate explanation and communication, services, finances and the reputation of the organisation can be damaged or put at risk. The Clyde Valley Community Planning Partnership involves councils in the Clyde Valley area working together to share services in social transport, integrated health and social care, waste management and support services. A number of councils decided not to proceed with some of the work streams partly because of changes in leadership following the May 2012 elections. This highlights the political and managerial complexities of large-scale projects of this kind.
20. The Accounts Commission 2011 report, on the use of arm’s-length external organisations (ALEOs)\(^7\) found that the majority of Scotland’s 32 local authorities operate some form of ALEO to deliver either innovative or improved local services. However, the evidence of improved performance and the delivery of better outcomes from these new arrangements are not always clear. That report also set out the range of delivery options available to councils and their potential advantages/disadvantages.

21. There are many examples of national shared services across the public sector. For example, National Shared Services (NSS) in the NHS, myjobscotland.gov.uk, and a range of national police support services.

22. The Accounts Commission recognises that councils are participating in a number of nationally and locally led shared service projects but it is aware of examples of issues arising in either agreeing new models of service delivery, such as Edinburgh City Council’s proposed Alternative Business Model, and East Lothian and Midlothian Council’s proposed shared education services; or in implementing agreed new joint service arrangements (Clackmannanshire Council and Stirling Council’s shared social work management arrangements.

23. There are though a number of reported barriers which may contribute to the slow progress in shared services to date. A UK wide shared services survey in 2008\(^8\) identified prominent barriers to delivering shared services in the public sector and our audit work has highlighted more specific issues:

- Financial:
  - significant set-up costs, particularly in IT, may be seen to outweigh future benefits
  - less advantageous VAT status of any shared services operating organisation.

- Workforce:
  - resistance from existing staff arising from concerns about possible job losses
  - problems in combining terms and conditions and staff working practices, possible knock-on effects such as equal pay issues
  - logistical and cultural issues where staff are shared across a number of organisations.

- Organisational, structural and collaborative culture:
  - overcoming governance and risk management problems specific to one partner in the shared service arrangement
  - lack of leadership
  - concerns over the loss of democratic control, local accountability and local identity
  - reluctance to share data or have it stored outside own organisation
  - concerns over damage to reputation if the venture is not successful or if service performance decreases, particularly the case for partners who are already regarded as high performers

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\(^7\) Arm’s length external organisations (ALEOs): are you getting it right?, Accounts Commission, June 2011
\(^8\) Shared Services Survey, Browne Jacobson.
24. The Scottish Government should encourage more collaboration and remove any barriers to joint working. For example, in our joint improving public sector efficiency report we identified the problems faced in Orkney where the council and NHS board tried to share services. Our more recent joint report on Community Health Partnerships identified financial governance challenges in both the Western Isles and Greater Glasgow and Clyde CHPs.

25. In relation to new models of delivering public services our reports have found that:

- the Scottish Police Services Authority’s (a national shared service for Scotland’s police forces) early development was hampered by a lack of clarity on how it was to deliver its long-term benefits, which was compounded by poor information about the services transferred.

- The public sector and councils in particular, are making increasing use of arm’s-length external organisations (ALEOs) to deliver services on their behalf, such as leisure services. However, robust information is not always available to ensure that local public bodies are achieving best value from such arrangements.

- Funding arrangements for services for vulnerable people are often complex and projects can have a number of separate funding streams, each with different timescales and reporting criteria. This is an added difficulty for those planning and providing services.

- The public sector has had some success in collaborating with others. It has reported significant efficiency savings from better collaboration in purchasing goods and services although progress in the development and take-up of collaborative contracts varies across the public sector. A number of health boards are also working in collaboration to introduce an e-health patient management system which should cover three-quarters of people in Scotland within two years. The McClelland report demonstrated that there is further scope to implement good practice and secure efficiencies from procurement. The Procurement Capability Assessment work across the public sector has provided a useful means for benchmarking performance in this area and supporting public bodies in improving practice.

- There are a number of technological developments that could support more efficient public services. For example, eProcurement Scotland (ePS) was launched in 2002 and has helped introduce e-sourcing (electronic tendering and auctions) and electronic purchasing across the public sector. By April 2009, 102 public bodies were using ePS and had spent almost £2.5 billion a year through it. Although information is not centrally collected, indicative figures suggest that

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9 Improving public sector efficiency. Auditor General for Scotland and Accounts Commission, February 2010
11 The Scottish Police Services Authority. Auditor General for Scotland, October 2010
12 Arm’s-length external organisations (ALEOs): are you getting it right? Accounts Commission, June 2011
savings of between £9 million and £25 million in staff efficiencies may have been achieved across the public sector since its introduction in 2002.\textsuperscript{16}

26. There is scope to improve how information is collected and shared among agencies in Scotland. NHS bodies and councils use different information systems and this limits their ability to deliver joined-up, responsive services. The lack of a consistent approach to information sharing can also limit effective joint working. Barriers include different data definitions and different security systems. Inconsistencies in systems used within sectors are also problematic.

27. More could be done to provide incentives to deliver savings across sectors rather than solely setting efficiency targets for individual bodies. There is the potential to save more by bodies working together to identify efficiencies across the whole system of service delivery. We estimated that inefficiencies in the criminal justice system through repeat stages in the court process cost around £10m in 2009/10. Late decisions not to proceed with cases cost an estimated additional £30m.\textsuperscript{17} A number of bodies in the criminal justice sector have worked together to streamline the process and deliver savings for the sector, rather than themselves individually. However, there is currently no mechanism for measuring savings in this way and there are limited incentives for individual bodies to change their processes for the benefit of others. We note a recent development in relation to cross-public sector joint working in the proposed extension of the powers of National Services Scotland to provide procurement, information technology, counter fraud services, property services, human resources and legal services to non-NHS bodies.

28. Strong governance and accountability are paramount, especially when the risks facing the public sector are increasing because of reduced budgets, increased demand and costs pressures, and the process of managing change associated with public sector reform. Boards and councils should ensure they are assessing and managing risks and have strong, linked information to support the decisions they are making.

29. Our work has also identified areas where the governance and accountability arrangements in individual partnerships are unclear. Implementing good governance and accountability in partnerships is more challenging than in individual organisations and significant effort needs to go into making sure these are fit for purpose. This is particularly important at a time when new partnerships, such as statutory Health and Social Care Partnerships are currently under consideration. Ensuring that clear and effective accountability arrangements are established for these new bodies is essential if these bodies are to play an important part in supporting public service reform and local service integration. The Chartered Institute of Public Finance and Accountancy (CIPFA) report on collaborating for cost-effectiveness highlighted the importance of effective governance in supporting the delivery of collaborative gain and improved outcomes.\textsuperscript{18}

30. Linked to the need for strong governance and accountability is the need for independent scrutiny, for both holding public bodies to account and supporting improvement. This is ever more important as budget constraints may result in more and higher risks for public bodies. The role of independent external audit, in holding public bodies to account and reporting publicly on findings is essential. However, this is not a

\textsuperscript{16} Ibid.
\textsuperscript{17} An overview of Scotland’s criminal justice system. The Auditor General for Scotland and the Accounts Commission, September 2011.
\textsuperscript{18} Sharing the gain. Collaborating for cost-effectiveness. CIPFA, 2010.
substitute for strong internal governance and management arrangements in public bodies. The role of inspection in maintaining high quality professional standards for the protection of users is also hugely important. Each has their place and a coordinated and proportionate approach needs to be applied.

**Community Planning Partnerships and outcomes auditing**

31. The Committee will be aware that the Accounts Commission has been asked by the Cabinet Secretary for Finance, Employment and Sustainable Growth to lead development work on preparing a case for how external audit and inspection may support the delivery of better outcomes by Community Planning Partnerships (CPPs).

32. This work has involved designing, piloting and evaluating an approach to assessing how well community planning partners are working together to deliver improved outcomes for their local communities. This will include:

- developing and testing an approach to assessing the effective delivery of outcomes at the level of community planning partnerships
- developing an approach to assessing how effectively resources are being used across the partnership (with a particular focus on linking relative spend to outcomes)
- developing an approach to assessing how well the CPP is engaging with local communities.

33. We anticipate reporting the outcomes of our three early CPP audits (Aberdeen City, North Ayrshire, Scottish Borders) and key national findings arising from the audit work in early 2013. We will also be publishing in early 2013 our overview of the annual audits in local government. We would be happy to discuss the key themes arising from this work with the Committee.