



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 13 January 2016

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PUBLIC AUDIT COMMITTEE
2nd Meeting 2016, Session 4

CONVENER

*Paul Martin (Glasgow Provan) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Nigel Don (Angus North and Mearns) (SNP)

*Colin Keir (Edinburgh Western) (SNP)

*Stuart McMillan (West Scotland) (SNP)

*Tavish Scott (Shetland Islands) (LD)

*Dr Richard Simpson (Mid Scotland and Fife) (Lab)

David Torrance (Kirkcaldy) (SNP)

*attended

COMMITTEE SUBSTITUTES

Mark Griffin (Central Scotland) (Lab)

John Lamont (Ettrick, Roxburgh and Berwickshire) (Con)

Liam McArthur (Orkney Islands) (LD)

Sandra White (Glasgow Kelvin) (SNP)

THE FOLLOWING ALSO PARTICIPATED:

Caroline Gardner (Auditor General for Scotland)

Gordon Neill (Audit Scotland)

Mark Roberts (Audit Scotland)

Claire Sweeney (Audit Scotland)

Gillian Woolman (Audit Scotland)

CLERK TO THE COMMITTEE

Anne Peat

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Public Audit Committee

Wednesday 13 January 2016

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Paul Martin): Good morning. I welcome committee members and members of the press and the public to the 2nd meeting in 2016 of the Public Audit Committee. I ask everyone present to ensure that their electronic items are switched to flight mode so that they do not affect the work of the committee.

Agenda item 1 is to decide whether to take items 6 and 7 in private. Do members agree to do that?

Members *indicated agreement.*

Section 22 Report

“The 2014/15 audit of the Scottish Police Authority”

10:00

The Convener: Item 2 is oral evidence on the Auditor General for Scotland’s report “The 2014/15 audit of the Scottish Police Authority”. I welcome Caroline Gardner, the Auditor General for Scotland; I also welcome from Audit Scotland Gillian Woolman, assistant director, and Mark Roberts, senior manager. I understand that the Auditor General would like to make a brief opening statement.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. I wish the committee a happy new year.

I am presenting the report on the 2014-15 audit of the Scottish Police Authority under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The year 2014-15 was the second year of operation for the SPA and Police Scotland, and the SPA’s accounts include Police Scotland’s financial results.

I highlight two issues to the committee. The first is the appointed auditor’s opinion on the SPA’s 2014-15 accounts. The accounts are unqualified, but for the second year running, Gilliam Woolman, whom I appoint to audit the accounts, has expressed a modified conclusion on those matters on which she is required to report by exception. She concluded that adequate accounting records had not been kept during 2014-15 for some aspects of property, plant and equipment.

Overall, the audit was very challenging to complete due to the poor quality of the unaudited accounts and major problems with information contained within the fixed asset register. In our experience of auditing public sector accounts, that is exceptional.

The second issue is the continued lack of a long-term financial strategy for policing in Scotland. I first recommended that the SPA and Police Scotland should develop and agree a financial strategy in November 2013. I drew the Parliament’s attention to the lack of progress last year in my section 22 report on the 2013-14 accounts, and I am doing so again now.

While some progress has been made, as detailed in the report, it has been slow. The SPA now plans to agree a long-term financial strategy for the next decade by the end of March 2016.

The Scottish Government’s draft budget for 2016-17 provides an increase in funding for the Scottish Police Authority. That will assist in

meeting some of the immediate financial pressures, but it does not remove the need to continue to find savings and, in particular, to develop and agree a long-term strategy to secure the financial sustainability of policing.

Together, the SPA and Police Scotland represent one of our most important public services. In 2014-15, they spent more than £1.7 billion of public money and held assets valued at more than half a billion pounds. Collectively, they must provide stronger leadership for strategic and operational financial management if they are to put policing on to a sustainable basis for the future.

I will report to the Parliament again next year on the SPA's progress in managing its finances, after the conclusion of the audit of the 2015-16 accounts.

Alongside me are Gillian Woolman, who audits the SPA's accounts on my behalf, and Mark Roberts, who leads on policing and justice in Audit Scotland. As always, convener, we will do our best to answer questions from the committee.

The Convener: Before we continue, I clarify for the record that David Torrance has given his apologies for today's meeting.

Auditor General, I ask you to clarify for the record what budget sum is allocated to Police Scotland on an annual basis.

Caroline Gardner: The amount that was spent in 2014-15 was around £1.7 billion in total—it is a lot of public money.

The Convener: Given the scale of that public investment, would you consider that maintaining records should be pretty standard practice, even in the challenging position in which Police Scotland finds itself as a result of the merger?

Caroline Gardner: It should be standard practice for any public body that spends public money, but, as you suggest, particularly for one that is responsible for such large amounts of money and providing such vital public services.

The Convener: What explanations were you given during the process for why the records were not kept to the standard that they should have been kept to?

Caroline Gardner: I ask Gillian Woolman, as the person responsible for carrying out the audit, to talk you through that.

Gillian Woolman (Audit Scotland): I am happy to respond to that question. Fixed assets, which are now known as “property, plant and equipment” in financial statements, are always a significant part of the audit of public sector bodies. You will recall that, last year, in the statutory report “The 2013/14 audit of the Scottish Police Authority”, I drew attention to the fact that the accounting

records for property, plant and equipment were not adequate.

This year, a significant exercise was undertaken by the Scottish Police Authority and Police Scotland to bring all the underlying fixed asset registers together. If you recall, there were 10 organisations, eight of which were police forces, so it was a significant exercise to bring all those records together. A new system called Asset 4000 was being used—we are familiar with that from other large public sector bodies. However, the exercise overran in terms of time and we were unable to undertake the audit work in a timely fashion. It was very late—it was some months after the financial year end—when we undertook the audit work, and we found a number of errors.

We had to work closely with officers to highlight those issues, and at one point we withdrew from the audit so that they could undertake a corrective action plan to improve their accounting records in the area of fixed assets. We returned to the audit and carried out additional work—more than was planned and more than would usually be done—in order to gain the necessary assurance about the results with respect to fixed assets in the financial statements.

The Convener: As an auditor, you followed a technical process. If we look at it from the public's perspective, the organisation is responsible for £1.7 billion-worth of funds. Most people would probably expect the maintenance of the assets that you refer to to be pretty basic. Is it that challenging?

Gillian Woolman: We had every expectation that we would find better accounting records this year relative to last year, and it is our expectation—

The Convener: Is there a potential loss to the public purse as a result of the poor maintenance of the records? Could we be losing money as a result of this? Could there be fraud?

Gillian Woolman: No. In our audit work, we undertake a series of audit tests to be assured as to the nature of all the transactions. We have no concerns with respect to the regularity of expenditure and made no criticism relating to any potential loss.

The Convener: The point that I am making is that, if an organisation cannot keep basic records, does that not speak volumes for the organisation's effectiveness in making best use of the public funds that are available to it? How can an organisation deploy resources in the appropriate areas if it does not even know where its assets are?

Gillian Woolman: In the section 22 report, we highlight that it is important to keep accurate

records of fixed assets because we have to ensure that they are effectively managed and protected and provide the necessary management information for decision makers, and that best value is derived from the assets that are within the stewardship of the Scottish Police Authority and Police Scotland.

Tavish Scott (Shetland Islands) (LD): I thank the Auditor General for the clarity of the report and the answers that she has already given. Is the SPA financially incompetent?

Caroline Gardner: The committee may recall that I reported on the reform process back in November 2013. At that stage, one of my major conclusions was that there was a lack of clarity in the roles of the SPA and Police Scotland, particularly in relation to things such as the management of finances and long-term financial planning.

I think it is fair to say that there has been progress since then in clarifying those roles and ensuring that there are appropriate people to carry out the functions that are required of the two bodies. However, the report that you have in front of you today and the report that I produced at the end of 2013-14 demonstrate that that progress has been slower than I would like.

Tavish Scott: Indeed. You have already mentioned—and the convener has asked you about—what you describe as the “poor quality” and “incomplete” nature of the audit. To me, it sounds as if the SPA is just straight incompetent. It is not up to this, is it? It spends £1.7 billion of public money, yet you say what you say in the report. Why should we have any confidence that it is going to get any better?

Caroline Gardner: In my November 2013 report, I highlighted that the reform programme was one of the most significant that we had seen since devolution, and there is no doubt that that is the case. Taking eight former regional police services and merging them into one—bringing together different accounting systems and different approaches to financial management—was always going to be a challenge. I concluded that the challenge was made more difficult by the slow progress that was made initially and the lack of clarity about the roles of the two organisations that make up policing in Scotland now.

It is now becoming critical that the shortcomings that are outlined in my report are genuinely addressed. There is a chance for a new start, with a new chair of the SPA and a new chief constable in place. However, a financial strategy is not a nice extra to have; it is something that is critical to ensuring that policing remains financially sustainable in the future.

Tavish Scott: Some of us warned about the issue at the time—we had to produce a minority report to do it. I certainly do not take any credit in saying, “I told you so,” but some of us did say that this was going to happen, and it has all come to pass. When will they get this right? This is the second year in which you have produced a clear report on the financial failings of the SPA. Do you have any expectations that it will be better next year?

Caroline Gardner: When I published my report before Christmas, I was encouraged by the SPA's response in accepting fully my findings and outlining its plans to move forward and resolve the issues. It will not be straightforward to do that. The deadline that it has set itself for the financial strategy is challenging. We are not far away from March 2016 and Gillian Woolman and Mark Roberts are watching progress closely on my behalf, as you would expect.

Tavish Scott: I am sure that that is all true. Who ultimately is responsible?

Caroline Gardner: There is an accountable officer for the SPA who is responsible to Parliament for the use of resources in the normal way. The overall reform process is a complex thing, which both the chair of the SPA and the chief constable have responsibility for.

Tavish Scott: It would be fair to say that the responsibility for the lack of clarity over the position of the SPA versus Police Scotland is a Government matter. The Government failed to provide that clarity, as we pointed out in November 2013.

Caroline Gardner: My November 2013 report highlighted the lack of clarity at that point. There has been some progress since then and, as the committee will know, the cabinet secretary has asked the new chair of the SPA to carry out a review of governance, which may touch on some of those issues.

Tavish Scott: That is locking the proverbial door after the horse has well and truly bolted.

In paragraph 11 of the report, you mention that the accounts state that expenditure in a number of areas “accounted for £46.5 million” compared with a budget of £67.5 million. The report goes on to say:

“It is not clear what the remaining £21 million was spent on.”

Since your report, have you been able to find out what that £21 million was spent on?

Caroline Gardner: I will ask Gillian Woolman to come in on that in a moment. As we say, of the £67 million that was covered in the annual report, it was clear what £40-odd million had been spent

on, but not what the other £21 million had been spent on. Again, in my November 2013 report, I highlighted the importance of being clear on how the reform budget was being used as well as how the core police resources were being used.

Gillian Woolman: Certainly, the accounts show that £67.5 million was spent during 2014-15 on reform-associated activities. Only £46.5 million of that has been identified under specific headings and, as regards the other £21 million, the challenge is the inability to distinguish that expenditure from normal operational expenditure. It was spent but it is difficult to distinguish that expenditure from other expenditure during the year.

Tavish Scott: When you asked the Police Authority to say what it spent £20 million of public money on, it could not tell you.

Gillian Woolman: The expenditure was aggregated with normal operational expenditure and not distinguished as specific spend associated with reform activity.

Tavish Scott: In your auditing view, should it have been quite specific, and should it have been auditable in that sense?

Gillian Woolman: The management commentary on the annual accounts is an opportunity to demonstrate where specific reform moneys have been used, in order to demonstrate that that investment is achieving a specific return at a time of transition for the organisation, because that investment was only for a finite period of three years.

Tavish Scott: I could not agree more. You will understand my suggestion that the organisation is pretty incompetent financially. I would not get away with that; indeed, most businesses would not get away with spending £20 million and being unable to say how they spent it. Why should this public body, which is spending taxpayers' money, get away with it?

Caroline Gardner: As I reported in November 2013, this was a specific budget to support reform. As Gill Woolman said, it will not be available indefinitely and therefore it is important that it is not underpinning continuing expenditure. Also, because this is a major reform programme that has been promoted and accepted by Parliament, it is important that how the reform budget is spent is clear.

Tavish Scott: Would it be fair to say that this is not the only example when vast amounts of money have been spent on reform and you have concluded that we are not absolutely sure about where that money was spent? It is a wonderful budget to set up for the people who are on the end of it and using it, is it not?

10:15

Caroline Gardner: The other example that I can recall reporting on in those terms is the further education college reform. It is clearly important to demonstrate how specific funding is used and, as Gill Woolman said, it is not always easy to do that because funding is spent under headings such as staffing and investment in information technology systems in the same way as it would be spent for day-to-day management. That is why it is important to be clear from the beginning how it will be reported.

Tavish Scott: It is just odd. If the SPA asks the Government for a budget of £67 million for reform and then cannot say how it spent it, that is extraordinary. Does the Government not care about that? Does it not mind that £46 million is spent in a way that people understand but another £21 million just goes into a black hole and no one knows where it has gone? That is an appalling waste of public money, is it not?

Caroline Gardner: I do not think that I can add to what I said. I reported in 2013 that there should be transparency and we have not seen it for part of the budget this year.

Tavish Scott: Absolutely. I completely agree with that.

Mary Scanlon (Highlands and Islands) (Con): I think that it was a couple of years ago that the members of the committee took the unprecedented step under Hugh Henry's convenership of writing a minority report because we had very serious concerns about the SPA and the merger process.

You said, Auditor General, that you were encouraged by the SPA's response. I remember being encouraged by what Vic Emery and Stephen House said in the long evidence sessions that we had with them. They said that they had a long-term financial plan, a financial strategy and their efficiency savings all set out. Three years later, there is still no sight of a financial strategy. All the responses, assurances and reassurances that we were given three or four years ago did not mean a thing.

I do not want to say that Vic Emery and Stephen House lied to the committee but, according to your report, none of what we were told was in place in relation to a long-term financial strategy—and I will ask about the efficiency savings—was there. We are still looking for a financial strategy and the promised efficiency savings three years later. Do you agree with that?

Caroline Gardner: I understand your concern, Ms Scanlon. I was referring specifically to the response to the report immediately before Christmas, with the new chair of the SPA

accepting my findings and outlining a plan for responding to them.

Mary Scanlon: I wanted to compare the situation to the past.

Caroline Gardner: I understand the concern. It is also important to say that some progress has been made but that progress has not been rapid or wide ranging enough to address the challenges that we know policing in Scotland faces. One of the drivers for reform was to ensure that policing remains financially sustainable at a time of tight resources and growing demands on the service. That is why it is important to have a robust financial strategy that demonstrates how that circle will be squared.

Mary Scanlon: My point is that we are still looking for what we were told was in place three years ago.

Caroline Gardner: Progress has been slow. My report certainly says that. The strategy is not now in place. You are absolutely right.

Mary Scanlon: I am concerned about what you say in paragraph 1. The accounts were “incomplete” and “poor quality”, and you have said that it is “exceptional”. How bad is it? How exceptional is it in the public sector? That is quite a guarded word to use.

Caroline Gardner: It is extremely unusual. As the committee knows, I appoint the auditors of every public body in Scotland outside the local government sector. Every year, we take stock of the experience of auditing the quality of financial reporting and financial management, and it is exceptional to find a such a case where, as she described, Gill Woolman had to suspend the audit, go away and allow the SPA time to correct the problems in its accounts before she could go back and do the audit work.

Mary Scanlon: Despite the SPA correcting the work that it was doing, we still have £21 million unaccounted for.

Caroline Gardner: We do not have a breakdown of that £21 million of the reform budget, and Gill Woolman has modified her opinion because of that.

Mary Scanlon: Having been here at the time, I recall that most parties—perhaps apart from Tavish Scott’s—supported the merger process. We supported it because there would be more front-line policing and more sharing of resources and expertise, and because we would have economies of scale in procurement and better estate management. However, I am struggling to find the promised efficiency savings.

I highlight the overspend of £25.3 million for the 2015-16 financial year. Paragraph 14 of the report says that there are measures that

“could deliver revenue savings ... and ... one-off capital receipts of £22 - 34 million could be achieved”.

I appreciate that that is about capital receipts with a non-recurring saving, but what about reasonable financial management? My concern is that there is an overspend of £25 million, and a capital receipt could wipe out that overspend, at least for this year. I am concerned about front-line policing and maintaining police numbers in future. Where does the money come from to cover a £25 million overspend? It could come from a capital receipt, but that is unlikely because of poor financial management. Where will that money come from, and where are the efficiency savings that we were all promised? That was the reason we gave the process our vote.

Caroline Gardner: I will ask Mark Roberts to talk you through our current understanding of the financial position, the point about where efficiencies have come from and what we know about plans for the future.

Mark Roberts (Audit Scotland): If the savings in running costs that have been made to date are extrapolated out, they would contribute towards meeting the proposed long-term savings of £1.1 billion by the end of 2025-26. As the committee may recall, additional cost pressures were built in and were not taken into account in the initial plans. Those still exist, and additional savings will have to be found.

As the Auditor General said, there are additional pressures on policing in terms of new demands, which are well publicised. Those will create more cost pressures in the long term. The ultimate savings will probably need to be greater than £1.1 billion in order to reconcile those various factors.

As for the £25 million projected overspend in the current year, that figure comes from an update that was provided to the SPA in October. Our understanding is that the SPA and Police Scotland are working hard to work out how they can resolve that in the course of the current year. That will be a focus for the 2015-16 audit that Gillian Woolman and her team will conduct.

Mary Scanlon: Will they have to go to the Government for brokerage? Does the same process apply to the police as applies if the national health service overspends its budget, for example? Do the police have to get a loan from Government to cover the shortfall?

Mark Roberts: The SPA has been very clear. It is very determined to be able to deliver a balanced budget by the end of the financial year.

Mary Scanlon: So there will be cutbacks and efficiency savings between October and April to get rid of the projected overspend of £25.3 million, and the budget will be balanced by the end of March.

Mark Roberts: The SPA asked officers to go back and work out a plan to deliver a balanced budget by the end of the financial year.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The report is disappointing, Auditor General. Some progress is being made, but far from quickly enough. I return to what Tavish Scott was speaking about. Has the structure of the finance area been put in place properly? Is it adequate? Does it work?

Caroline Gardner: I will ask Gill Woolman to talk you through her views on that. She is much closer to the workings of the finance function in both the SPA and Police Scotland, and she has engaged with the SPA's audit committee over time.

Gillian Woolman: As the Auditor General highlighted earlier, back at the time of the November 2013 reform report, we were still observing and reporting that the corporate services areas were subject to much discussion and deliberation before a particular structure was settled on. There are finance functions in both the Scottish Police Authority and Police Scotland. Part of the time, the authority's role is to hold Police Scotland to account, but there is just one set of financial accounts. Their preparation is led by the Scottish Police Authority, and the chief constable of Police Scotland must co-operate for the preparation of those financial statements. There are clearly significant systems within the control of Police Scotland, where 98 per cent of the spend is processed. Nevertheless, the accountable officer of the SPA is ultimately accountable for all of the £1.7 billion spend.

In our long-form report to the Scottish Police Authority, we reported that there were tensions in those structures and processes. Nevertheless, we had expected them to work better for the purpose of preparing quality financial statements to be presented to external audit, for the smooth running of that audit and for a completely clean, unqualified audit opinion on those financial statements. From the response that the Auditor General received at the end of December 2015, it is clear that the Scottish Police Authority is putting an interim chief finance officer into place to assist with progressing improvements in processes. That is to address some of the tensions in the structure.

Colin Beattie: Have we not had chief financial officers before? Was there not a whole series of them and was that not a problem in the past?

Gillian Woolman: Yes, we reported at the conclusion of the 2013-14 audit that there was a series of interim directors of finance for the Scottish Police Authority. It was intimated to us in December 2015 there will be an interim chief finance officer, who will be senior to the two directors of finance in the SPA and Police Scotland. That post will have a number of priorities, one of which is to address the projected deficit through to March 2016. Another is the improvement of the accounting records.

Colin Beattie: Is that not just adding another layer of management? The previous layer of management did not work, so is the SPA not just putting somebody above it to see whether that works?

Caroline Gardner: As Gill Woolman said, it certainly is an additional post to the two directors of finance in the SPA and Police Scotland. The rationale is that the post will deal with the specific, short-term challenges that the policing service faces at the moment and carry through to the implementation of the governance review that the new chair of the SPA is carrying out.

Colin Beattie: In paragraph 24 of the report, you say:

"The Scottish Police Authority and Police Scotland must collectively provide stronger leadership".

Who is ultimately responsible for providing that leadership?

Caroline Gardner: As I have said to the committee, in formal terms the chief executive of the SPA is the accountable officer and is accountable to the Parliament for the use of resources by the SPA and Police Scotland, but the structure that we have in place with the Scottish Police Authority and Police Scotland means that there needs to be clarity about who is responsible for what, how they work together and how that enables the accountable officer to fulfil his responsibilities.

Colin Beattie: That seems to be the same problem that we had before.

Caroline Gardner: The changes that were put in place after my November 2013 report represented a movement in the right direction, but it is clear from what we have seen in our audit work and the financial pressures that policing in Scotland faces that those changes have not yet had the desired effect. That is one of the impetuses behind the governance review that the Cabinet Secretary for Justice has asked the new chair of the SPA to carry out.

Colin Beattie: Paragraph 8 talks about the introduction of the

"single fixed asset register ... Asset 4000."

That process was not completed by the time of your audit report. Will Asset 4000 be the answer? Will it do the job?

Gillian Woolman: We are familiar with Asset 4000 from other audits of large, public sector bodies throughout Scotland, but implementing it was always going to be a significant exercise. The project to do that took an extended period and the project team did not have time to carry out the necessary quality reviews before the external audit team came along and found a number of challenges and problems with the integrity of the data that was available.

Colin Beattie: Is it correct to say that, on paper at least, the information has been put into Asset 4000 and the SPA is just now working through any discrepancies?

Gillian Woolman: Yes and, in fact, that was happening at the time of the audit.

10:30

Dr Richard Simpson (Mid Scotland and Fife) (Lab): I would like to understand the structures. We are now into the third year and, if we have not yet got the structures right, the question is whether we will.

There are two directors of finance—in the SPA and Police Scotland—and there will now be another interim chief finance officer. There is also an audit committee for the Police Authority. Is there something similar in Police Scotland?

Gillian Woolman: No.

Dr Simpson: So there is just the one—I see that Gillian Woolman is nodding.

Are you satisfied that the general structure is now right, or should there be a permanent chief finance officer over the two directors of finance?

Caroline Gardner: I will preface the answer briefly by saying that the cabinet secretary has asked for a governance review to consider exactly such questions. I ask Gill Woolman to give you her professional view on what is working at the moment and what might be needed in future.

Dr Simpson: That would be helpful. Ms Woolman, are you being consulted about the matter because of your experience of doing an audit with different finance officers? You have the continuity, which seems to be lacking.

Gillian Woolman: As part of our annual audit each year, we produce a number of reports and we have made a number of recommendations with respect to the finance functions for the two organisations. Indeed, yesterday, I had colleagues from the audit team meet officers to find out how they were implementing those recommendations.

Throughout the process, those recommendations are intended to improve the structures and processes that are in place and make them more effective.

We welcome the fact that a governance review is being conducted. We have been consulted as a key stakeholder for that review in writing and in meetings with the team that is supporting the chair of the Scottish Police Authority in undertaking it.

On our proximity to the two clients and what the right structure for the future will be, there is no doubt that there has to be an understanding and a will to share ownership of the financial accounts. After all, they are the reporting in public of the financial performance of the Scottish Police Authority, including Police Scotland. It is a leadership issue. Leadership is necessary to ensure the ownership, quality and professionalism that are needed to have a satisfactory outcome each year with the preparation of the financial accounts.

Dr Simpson: I presume that that leadership has to come from the new chair and new chief constable.

Caroline Gardner: Yes.

Dr Simpson: That is helpful. Are you willing to supply the committee with your observations so that the successor committee in the next parliamentary session can hold the SPA to account on the second set of aspirations for things to be right? If the committee can see your recommendations and consider them in light of the governance review report and the changes that are made following that report, it will have the opportunity to determine whether, three years on, progress is a little more speedy.

Caroline Gardner: We can certainly provide the committee with Gill Woolman's annual audit reports, which set out her observations over the past two years, and the response that we have made to the governance review about the issues that it needs to address.

Dr Simpson: That is helpful. I will briefly return to the £21 million. I have chaired charities, so I am aware of what being the equivalent of the accountable officer involves. We received funds that, in charity terms, used to be called restricted; we had unrestricted and restricted funds. The restricted funds had to be used for the purpose for which they were authorised and had to be audited separately. I do not understand why an organisation as big as the SPA, which presumably has very well-paid finance people, did not have the reform funding as restricted funds that were clearly determined and not thrown into operational use. I am very concerned that throwing those funds into operational use means that the SPA will not have them in two years' time. If they are simply being

absorbed into the general running, they will not be taken into account in determining future budgets.

Caroline Gardner: There is no formal requirement for those funds to be restricted, treated separately or audited separately, but that is why, in November 2013, I recommended that there should be transparency about how they were used. That concern remains a real, live one, because in the draft budget that the Deputy First Minister announced before Christmas, part of the additional funding for the SPA was a continuation of the reform funding. That was £55 million, I think. It is clear that that will go some way to helping to address the outstanding issues around police reform, but it is critical that it is not used to underpin continuing expenditure, given that the financial sustainability is still an open question in the absence of a financial strategy.

Dr Simpson: Should the Government not have said that that is a restricted fund? It does that for charities. The third sector is held to account for much smaller sums. Should the Government not have said that that is a restricted budget, that it must not be used for general operational things, and that it must be identified?

Caroline Gardner: It is not common practice to place such formal restrictions on the way in which funding is provided, but it absolutely is good practice in reform programmes in which specific money is provided for a specific purpose to require clear reporting about how it is used. That is why I highlighted the issue in my report.

Dr Simpson: Finally, I turn to paragraph 19 of the report, as things are critical going forward. I am slightly surprised by your report. We rely on Audit Scotland to give us a much broader view than simply on the money. It is all about how the organisation is functioning. The major problem for us in Parliament has been the use of police officers in an inappropriate way in call centres. Police officers are an expensive resource, and there are to be no compulsory police officer redundancies. There have been significant complaints from the unions that the events and deaths on the M9 were associated with the inappropriate use of poorly trained police officers for the call centre function. I am slightly surprised that your report does not address the inefficiencies as a result of the requirement that compulsory redundancy can apply only to more poorly paid staff and not to the police officers.

In addition, although there are no compulsory redundancies, I have certainly received anecdotal evidence that senior police officers have been encouraged to take voluntary redundancy in order to bring in much less experienced officers and reduce costs. If senior officers are being removed at a fast pace in order to replace them with junior

officers who cost a lot less, that is very damaging to the overall efficiency of the organisation.

There is no commentary in the report on either of those issues. Would you like to comment on them?

Caroline Gardner: Certainly, Dr Simpson. The report and the report that the committee considered 12 months ago were both produced under my powers under section 22 of the Public Finance and Accountability (Scotland) Act 2000, and they are specifically on matters that arose from the annual financial audits of the authority. My November 2013 report was produced under my powers under section 23 of that act, which are the powers under which I can look at the efficiency and effectiveness with which money is spent.

It is worth noting that the report was produced alongside the annual report by Her Majesty's inspector of constabulary on policing in Scotland for 2014-15, which focused on some of the issues that you described. We will continue to work very closely together to ensure that our reports are complementary, as they were in that instance.

Mark Roberts will be able to tell the committee a little more about how we are staying close to the operational and value-for-money impacts of the decisions that are being taken about staffing and other significant matters.

Mark Roberts: As paragraph 14 of the report says, the SPA intends to produce its long-term workforce strategy by the end of this financial year. We would expect that to address some of the issues that Dr Simpson raised about officers operating in what had perhaps previously been more non-officer roles.

One of the challenges that the SPA and Police Scotland face is the large amount of their expenditure that falls within staff costs. They have identified in a statement of long-term financial intent the fact that staff costs are 86 per cent of their total costs, of which the overwhelming majority are police officer costs. Given the other constraints on them, they are therefore relatively restricted in their action.

The operational impact of that very much falls within the realm of HMICS, which we work with very closely. We meet on a quarterly basis and co-ordinate our work and engagement with the SPA and Police Scotland.

Dr Simpson: That was helpful. I have one small comment. It was interesting that you mentioned that crime is down by 41 per cent, because it is down by 41 per cent in England, too, where they have cut the number of officers significantly. Therefore, police officer numbers are not the main driving factor in the reduction of crime. The reduction is a worldwide phenomenon in

developed countries. There is a myth around the issue that is damaging to this organisation.

Stuart McMillan (West Scotland) (SNP): I have a couple of questions about Asset 4000. When reading the related information and listening to the evidence, I was struck by the timescales for the audit process. However, before I ask questions about that I have another issue to raise. Did the individual police forces have their own asset registers or did they populate Asset 4000?

Gillian Woolman: The previous forces all had their own fixed asset registers.

Stuart McMillan: When was the request put to the SPA to input the data into Asset 4000? When did your audit process start?

Gillian Woolman: The first financial year for the SPA and Police Scotland was 2013-14, by which point one would have expected progress to have been made on pulling together key financial systems. However, at the end of 2013-14 we reported not only that fixed asset registers had not been brought together as one but that individual registers had not been kept up to date during 2013-14. During 2014-15, when they embarked on pulling together everything into Asset 4000 as the one fixed asset register for the new national organisation, two years' worth of data had to be drawn in.

It is a normal part of the annual audit process to carry out audit work on an organisation's fixed asset register. We would not request that an organisation progress with a register; it would clearly need to progress with it for its own purposes.

We would normally carry out interim audit work on internal control systems before the financial year end, and we would carry out work on the transactions and balances after the year end. For the year 2014-15, we could not carry out any interim audit work on the new fixed asset register because the project was still under way and it was still a period of transition. Indeed, when it came to the final accounts audit, we could not commence our audit testing at the planned date; rather, it started six weeks into the audit—hence the protracted nature of the 2014-15 account and our concluding it much later than intended.

Stuart McMillan: Is it fair to say that, because of the inherent legacy issues of the individual forces and their asset registers not being up to date, your job as auditor was made that bit tougher and you were unable to complete the process as you wished?

Gillian Woolman: No. I must clarify that point. In the last year of the legacy forces, which was 2013, they all received unqualified audit opinions on their financial statements. It would have been

very ambitious to try to achieve one fixed asset register during 2013-14, which was the first year of the new organisation. Consequently, the expectation would have been that, as a compensating arrangement, all the legacy fixed asset registers would have been kept up to date so that they could form the basis of our audit work for 2013-14. However, that was not the case. Nonetheless, I make it clear that the criticism is not associated with the period prior to 2013-14.

Stuart McMillan: I whole-heartedly agree that the asset registers should have been up to date. I do not dispute that point in any way, shape or form. I am just trying to understand why you faced the issue and why the SPA—certainly in the period covered by your report—did not manage to have a full, up-to-date asset register.

10:45

Gillian Woolman: Yes, there is no doubt that it has been a big exercise—over 21 months now—to get one asset register that is accurate and up to date. There was certainly a project in place during 2014-15, but it did not progress at the pace that would have been necessary to achieve a good outcome by the conclusion of that financial year.

If you were to push me as to why that was the case, I would say that it was because it took time to put the right people in the right place in the two finance structures and the people who were assigned to carry out the work were assigned late. There was a project in place and people were assigned roles to progress it, but they did so in a disparate fashion and no one person took ownership of the whole project. There was a lack of quality review of the data that was inputted. Consequently, when we carried out the audit work, we were the first to encounter a number of errors and problems, which we had to report back to officers who then had to correct them.

Stuart McMillan: Did the SPA use internal staffing for that, or did it bring in external contractors to undertake the work?

Gillian Woolman: The work was done largely by Police Scotland finance staff. We have said in our long-form report to the SPA, which comes from us at a local level, that there was a failure to quality assure the work that was carried out and a failure by the authority to scrutinise the fixed asset records.

Stuart McMillan: Thank you.

Nigel Don (Angus North and Mearns) (SNP): Good morning, Auditor General. We have talked a lot about the systems, but I want to ask about the real value of what is involved in the asset schedule, which is a subject that I have asked about in other contexts. That is about the real

value of the assets and their saleability and whether any of them is actually of much use to anybody else. Are the replacement costs appropriately measured? In the future, could any of the black hole be filled by selling assets? In practice, buildings tend to be overvalued—I think that you know where I am going, Auditor General.

Caroline Gardner: Yes. You are absolutely right to ask the question. The reason that we have highlighted the failings in the asset register is not that we are bean counters who get excited by that sort of thing; it is that the register should be a really important source of information for making exactly those decisions. It could be a source of savings that would help to make policing sustainable in the future.

I ask Gillian Woolman to talk you through the way in which the valuation process works and how that ties in with your questions.

Gillian Woolman: The Scottish Police Authority has accounting policies with respect to the valuation of its fixed assets. As we have highlighted, the value of fixed assets is now running at around £0.5 billion in the financial statements of the organisations. A number of valuations were carried out in relation to the financial year 2014-15, but they were carried out very late in the day and a number of accounting entries that were connected with those assets were made after the year end. For certain ones, there were impairments in value, and those are recognised in the 2014-15 accounts.

It is another area in which a number of errors were made in the accounting entries after the valuations were processed and, again, the external audit team had to engage with key members of staff to correct entries after the valuation of assets. However, we are comfortable that the organisations are now up to date with their own accounting policies for the valuation of land and buildings.

Nigel Don: Does that imply that you are comfortable that they are up to date with the replacement or upgrading costs of the assets that they need in the long term?

Gillian Woolman: We are content that they are compliant with their accounting policies. On occasion, that is a depreciated replacement cost value and at other times it is an existing use value. We are content with the arrangements that they have put in place. They used external experts for those valuation exercises.

Nigel Don: I want to go beyond that. I appreciate that auditing is about asking whether things are consistent with an accounting policy—I have been there and done that. My question to the Auditor General is whether the accounting policy actually fits the task of having a police force that

can do its job this year, next year, in five years and in 10 years. We are not talking about a company that is going out of business; it has to be able to operate for ever and ever.

Caroline Gardner: You are exactly right. That is why the asset register is so important. I would also link it back to the financial strategy. One of the underpinning strategies is around property and other major fixed assets. It is clear that bringing together eight regional police services into one national police service may bring the opportunity to dispose of some assets—to sell them—and potentially to invest in others in order to have better, more fit-for-purpose buildings and assets with which to deliver the service. However, without both an up-to-date asset register and a financial strategy, it is not possible to do that.

In some instances, that might mean a change in the valuation basis. For example, if you decide that you do not want a police station any more—if you want to dispose of it and invest in something else—your valuation base may change to something that is more appropriate for assets that are held for disposal. However, you need the information to be in place in order to be able to make those decisions and to account for them to the committee and the public.

Nigel Don: Are you confident that the people who are making those judgments understand what you have just said about changing the basis of valuation to fit the need? It is clear that there must be an asset register and up-to-date valuations—if they have not got them, they have not got the basic information. Are you confident that the management structure and the people involved are able to take account of the need to have the right accounting system and protocols to ensure a long-term Police Scotland?

Caroline Gardner: People almost certainly understand that in principle, but it is not until they start work on the underpinning asset strategy and the decision making that comes from it that it becomes something that people are doing in practice and so understand the implications of. In a sense, it can only be done in practice as people start to think about the choices that they are making.

Colin Keir (Edinburgh Western) (SNP): Happy new year to you all. There was a stand-off around VAT when Police Scotland was being set up—you mention that in paragraph 11 of your report. Allowing for the fact that there was no agreement and the Scottish force is the only force that has to pay VAT, I am a little unclear as to how much VAT it is paying. Can you clarify that?

Mark Roberts: I cannot remember what the exact VAT liability was in 2014-15. Gill Woolman might have the number to hand.

Gillian Woolman: It was in the region of £20 million to £23 million. We can confirm that for you.

Colin Keir: Another question that has been buzzing around for a while is about the way in which the police pension scheme is set up. Am I correct in saying that it is a UK-wide scheme?

Gillian Woolman: In the annual accounts, there is a separate set of accounts for the police pension scheme. The scheme is similar throughout the United Kingdom, but there is a set of annual accounts that are specific to the Scottish police pension scheme, which is associated only with officers.

Colin Keir: What are the liabilities from the legacy forces? I have heard that question asked in the past. There seems to be some doubt about whether, although audited in Scotland, those are part of a UK-wide scheme. Is that the case?

Gillian Woolman: The police pension scheme in Scotland is an unfunded scheme that is similar to the national health service scheme and the Scottish teachers' superannuation scheme. It was clearly going to be a step change when the eight forces merged. For the year 2013-14, we saw that unfunded liability for the first time, and the figure was £12 billion. For the year 2014-15, the unfunded liability in the accounts was, altogether, £15 billion, which reflects a 20 per cent increase in the liability. Unlike the NHS scheme and the Scottish teachers' superannuation scheme, which are underpinned by Westminster, the police scheme is specific to Scotland.

Colin Keir: Can you clarify that that has been the case since Police Scotland began, or were the legacy forces completely separate as well?

Gillian Woolman: The legacy forces all had a pension liability. If you were to add up the liabilities of the eight forces up to the year 2012-13, the figure that you would come up with would be similar to the aggregated figure when the new merged force came into being in 2013-14. There has not been any change to the scheme, but there is now one set of accounts shown within the Scottish Police Authority accounts.

Colin Keir: Was the scheme always separate from the pension scheme for the forces in England and Wales?

Gillian Woolman: Yes.

The Convener: I have a couple of questions to ask before we finish. In the report, you refer to constraints and challenges that the SPA will face in the future, including in relation to the no compulsory redundancy policy. Do you think that that is sustainable?

Caroline Gardner: The legislation that governs my role specifically prevents my commenting on

the merits of policy. In my report of November 2013, I said that both the no compulsory redundancy policy and the 17,234 officer commitment reduced the flexibility that the SPA and Police Scotland would have to balance their finances in the future. That statement of fact remains true.

The Convener: My final question is on the asset register and the fact that some of the information has not been recorded as part of the process. Do you have any examples of things that have not been registered? When we talk about assets, we can mean buildings, plant and so on. Have any buildings not been registered, which Police Scotland might not have been aware of?

Gillian Woolman: By the conclusion of the audit, we were satisfied with the adequacy of the accounting records at 3 December. Prior to then, we found problems with the accounting records. Sometimes that was due to the figures that had been drawn in, sometimes we found that depreciation charges had not been included and sometimes we found elements that had been capitalised that ought not to have been included in the fixed asset register.

The Convener: Can you give me any specific examples—perhaps a police station or something that was no longer in operation that had not been recorded? Was there something significant?

Gillian Woolman: No. No big items of land or buildings had been overlooked as you suggest. We found problems with including movements in the valuation of the land and buildings but no big omissions.

The Convener: Okay. I thank the Auditor General for the report.

10:57

Meeting suspended.

11:02

On resuming—

Section 23 Report

“Health and social care integration”

The Convener: We move to agenda item 3, which is evidence on the AGS report entitled “Health and social care integration”. I welcome again the Auditor General, Caroline Gardner, and I also welcome from Audit Scotland Claire Sweeney, assistant director; Rebecca Smallwood, performance auditor; and Gordon Neill, portfolio manager. I understand that the Auditor General would like to make a brief opening statement.

Caroline Gardner: As you know, the Public Bodies (Joint Working) (Scotland) Act 2014 sets out a framework for NHS boards and councils to integrate some of their health and social care services. This is an ambitious programme of reform that will in time affect most people who use health and social care services. The act creates 31 new partnerships, known as integration authorities, across Scotland—one for each council area and a joint authority between Clackmannanshire Council and Stirling Council.

Those integration authorities must have delegated responsibility for budgets and services by April this year. The report that I bring to the committee today looks at progress that has been made in advance of the deadline. It is the first in a planned series of three reports, and it also relates to my annual overview reports on the NHS and my forthcoming report on changing models of health and social care.

The scale of the reform that the 2014 act brings in is significant and covers services with budgets of more than £8 billion a year that affect the lives of people across Scotland every day. We found widespread support for the principles of integration from those who are involved in implementing the changes. All 31 integration authorities are expected to be operational by the deadline of 1 April 2016.

Despite the progress, some significant risks need to be addressed if integration is to change fundamentally how health and social care services are delivered. We found evidence that integration authorities might not be in a position to make a major impact in 2016-17. In particular, difficulties in agreeing budgets and uncertainty over longer-term funding mean that comprehensive strategic plans are not yet in place.

The report highlights other important issues. For example, the complexity of governance arrangements means that it will be hard for staff

and people who use services to be clear about who is responsible for care. Workforce issues are also significant. There is a risk of inheriting a workforce that has been organised in response to budget pressures, as opposed to strategic needs. There are also risks around the different terms and conditions for NHS and council staff, and problems with recruiting and retaining general practitioners.

We make a number of recommendations in the report, which are intended to address the risks that we have highlighted in order to develop integration before the 1 April deadline. For example, we recommend that integration authorities should be clear about how governance arrangements will work in practice, particularly when disagreements arise. That would include clear statements on the roles and responsibilities of the integration authority and its individual members, the council and the NHS board, and it would ensure that members of integration authorities received training to prepare them for their roles. That would help to minimise the risks of confusing lines of accountability and potential conflicts of interest, as well as making clear who is ultimately responsible for the care that is provided.

As always, convener, my colleagues and I will do our best to answer the committee’s questions.

The Convener: We will go straight to Richard Simpson.

Dr Simpson: This is a useful first report. Mary Scanlon and I have been around long enough to have experienced the joint futures programme in 2001, which failed, in effect.

I am particularly interested in the budget side of health and social care integration. If that goes wrong, there will be major problems. I hear anecdotally that the joint boards are likely to start with the possibility of absolutely huge deficits if they are to carry out their functions. Of course, the budgets have to be approved by the Government through the Cabinet Secretary for Health, Wellbeing and Sport. As I understand it, they will have to be approved by April.

Are you satisfied with the progress that is being made in approving the budgets? We really will not get far without them. Are those budgets likely to be for beyond 2016-17? Your report on the health service criticised the failure to have long-term planning instead of year-to-year planning. However, with the integration joint boards, we are going into a new set-up that does not have a plan even for a year.

Caroline Gardner: We highlight in the report—for exactly the reasons that you highlight—the importance of getting in place not only next year’s budget but the strategic financial plan for the longer term, although that is one of the things that are not yet in place, as you said. We know that

health boards and council social care services are under significant financial pressures. That is because of the pressures on the finances for public services more generally and because of the demographic pressures that they face, which will make the situation more challenging. That is one of the reasons why having the budgets in place and having governance arrangements that will be clear about how the budgets are used is key—they are the two key things that we highlight in the report.

I ask Claire Sweeney to talk you through what we know about the progress that is being made and to indicate our sense of optimism, or otherwise, about the chance of having things in place by April in the way that you described.

Claire Sweeney (Audit Scotland): We recognise in the report that it has been challenging for partnerships to get this far. As the member will know, the report is the first of three reports that we plan to produce on integration, so we are looking at the very early stages of partnerships getting arrangements in place before they begin the work.

What we have seen is that the schemes were signed off and approved by ministers in line with the expected timescales. The intention is that all budgets will be in place by 1 April. We understand and highlight in the report that there are risks and challenges in that. We observed a number of difficulties in negotiating relationships between partners in various places across the country. However, we think that the budgets are likely to be in place on time. That is not to downplay the difficulties in the on-going discussions about, for example, what parts of the acute budgets for hospitals will be included in the new arrangements. It is clear that substantially difficult conversations are taking place to enable the partnerships to be in place by 1 April and get on with the job.

Dr Simpson: In 2008-09, the integrated resource framework system was beginning to be set out. I understand that it has a new name but, in effect, that should have been providing background information in the lead-up to integration. We are now seven years on from that, so I am disappointed that you say in paragraph 90 of the report that the

“data-sharing agreements are not yet in place.”

That surprises me because, by now, the integrated resource framework should have been providing such information in considerable detail. I know that there were initially difficulties at a local level, but the system should have been evolving. Has the Government not adequately resourced that? What has been the failure by the Government to provide that anticipatory information?

Claire Sweeney: We have been tracking the developments of the integrated resource framework for a number of years. We identified in this report and previous reports that such information is central to making a success of the changes. We have observed over the years that that has moved from the developmental approach that was tested in various areas to a much more systematic approach now, in which the information is collected centrally and is reported to all partnerships. For example, a more recent big development has been that the Government has supplied information to partnerships about people who use NHS and social care services heavily.

We have had really helpful conversations with various partnerships throughout Scotland, and particularly in Tayside, that are using detailed information that is based on centrally held data. That process brings together health and social care information to give a much more rounded understanding of what the challenges are and to get beyond some of the high-level national statistics so that people can think about what the situation means for individuals who live on a particular street or people who need to access health and social care services regularly.

We are seeing a move forward and support to partnerships so that they have the information that they need. However, you are right that significant areas of development still need to be addressed quickly if partnerships are to make the difference that the vision of integration intends.

Dr Simpson: Are you satisfied that the Government, through ISD Scotland, is providing the information to an adequate level to allow the outcomes stuff to which you referred to be looked at appropriately?

Claire Sweeney: Partnerships have better information now than they had before in order to make such decisions locally. The Auditor General referred to a report that we are working on about models of health and social care. That report will get under the skin of national data sets and produce examples of local partnership working where partnerships have brought data together locally, overcome the challenges that we mention in this report and started to focus on exactly where the pressure points are across the health and social care systems. That has developed over time. It is big and challenging, but the information is of a quality that it was not before.

Dr Simpson: Another aspect is the national care standards. Unless people know what standards they are applying, the whole thing becomes rather irrelevant. Those care standards have not been modified since 2002. In 2012, the Health and Sport Committee called on the Government to produce new care standards but,

as far as I know—you might know differently—we still do not have them.

Here we are, going into the most significant reform in the health service and social care services since 1948, and we do not have national care standards against which to set that reform. Maybe that is a policy issue, which you cannot comment on. However, it seems to me that, without the data from the integrated resource framework—or whatever it is now called—and without the national care standards, the new organisations will be fighting an uphill battle to get in place the governance arrangements that they need.

Caroline Gardner: We refer to the national care standards in paragraph 92 of the report, and a consultation is under way about the overarching principles that should apply to the new standards. The Government's plan is that the standards will be in place some time during 2017. Work is under way, but you are right—refreshed standards are not yet available to replace the original national care standards from 2002.

Dr Simpson: How will the successor committees to this committee and the Health and Sport Committee hold the IAs to account against a set of standards that will be 15 years out of date?

Caroline Gardner: That question is better directed to the Government than to us.

Colin Beattie: The report highlights the fact that there are significant challenges in what is a major and ambitious project. Paragraph 35, on page 19, comments on the guidance provided by the Government. Three Ayrshire integration joint boards have gone ahead in advance of that guidance. What are the implications of that?

Caroline Gardner: I will ask Claire Sweeney to take you through the implications in more detail. The point that we are making is that some guidance was provided later than was ideal for partnerships to be able to use it. I ask Claire to pick up what that meant for the partnerships that went ahead before the guidance was available.

11:15

Claire Sweeney: The development of the reforms to date has been characterised by a great deal of consultation and engagement with the partners that are involved. We have been reporting over the past few years on similar issues, so in a sense a lot of that is not new. Partnerships have already been working towards some of the core standards on keeping people safer in their own homes that have now been set nationally, so they are familiar with much of the reporting, as that was already in place.

One of the challenges of the guidance coming later is that partnerships started without guidance in place. The consultation is on-going, and I understand that partnerships will continue to discuss performance reporting. That has been helpful, but it means that some partnerships published some of their information a bit earlier, so there is a risk that it will not fall in line with the guidance.

The overall ambition is common across all partnerships. They understand that the core aims of the reforms are about keeping people safer at home and involve a general shift away from unplanned emergency admissions to better care in the community, with all that that entails for GP and community services. There is an understanding of the general approach that everybody is aiming to take, but there is a risk in that the guidance came later for some partnerships than would have been ideal.

Colin Beattie: You just said that there seems to be a common understanding of the approach. Paragraph 42 states:

"The scope of the services being integrated varies widely across Scotland."

Why is that?

Claire Sweeney: The reforms were designed to allow for local flexibility to address local issues, so we would expect to see quite a lot of variation in the measures that are being used at a detailed level and the services that are being integrated. For example, if an area had a problem with drug and alcohol services, one might expect to see much more discussion there of that issue and a much greater focus from the resource—the money, the staff and the initiatives to improve performance in drug and alcohol services—than in an area in which the issue was less of a priority.

That is fine and correct, but we recognise in the report that there are inherent challenges in that approach. Focusing on outcomes at a very local level, which drives the entire system, is fine, but there is a challenge in tying that up with what we know nationally about what works well, how we share good practice and the general oversight of how the system is performing across health and social care services. There are challenges in that for the partnerships and the Government to work through.

Colin Beattie: Although you expect to see those variations locally, paragraph 42 states that there is

"a risk of fragmented services in some areas."

That is a wee bit different from simply having local variations.

Claire Sweeney: That is right. We highlight in the report the risk that reform will focus on services that are included in integration and that there will be a separation or a different direction of travel for services that fall outwith the integrated partnership arrangements. We have highlighted the importance of establishing a clear sense of good care and clinical governance; ensuring that there is clarity about who is responsible for delivering which services; and—crucially—making sure that people in the local areas understand what reform entails and the way in which their services will change and improve and that their voices are heard as much as the voices of the professions that play a key role are.

Colin Beattie: I understand that there has to be local variation because there are different priorities in different areas. However, many of the core elements of reform should be common. How will we measure the success of the new bodies if there are no common indicators?

Claire Sweeney: There will be core indicators, in the sense that a series of national measures and targets will still exist, although they will shift and change over time. There will be nine national outcome measures, as we detail in our report, which are key to looking across the entire system at the impact that the reforms and changes are having. Those are the twin tracks that will give a national picture of how the reforms are having an effect locally.

Mary Scanlon: I have a supplementary to Richard Simpson's point. Paragraph 73 says that only six of the 31 authorities had agreed budgets by October. Given that we are now into January, what progress has been made on that figure?

Claire Sweeney: Things have improved and there are on-going discussions. I cannot give you the exact number that have budgets in place. We looked at progress up to October last year and we will keep in touch as things develop. The issue involves the local financial audit work as much as the national value-for-money work. We want to keep a close eye on it.

Mary Scanlon: I just wondered whether you had an updated figure.

I remember sitting on the Health and Community Care Committee with Richard Simpson when we dealt with what became the Community Care and Health (Scotland) Act 2002, which introduced the policy of free personal care for the elderly. At that time, we had thousands of bed blockers because of delayed discharge. The NHS could not get them out because it had to wait until councils had money at the end of the financial year.

I remember that every ounce of evidence that we had said that there should be a single budget.

The committee did not recommend who should hold that budget, but a single budget was agreed on. We moved on to pooled budgets and aligned budgets. On pages 30 and 31, you talk about set-aside budgets and different planning cycles.

You talk about 31 out of 32 authorities, and the 32nd one involves Highland. Highland Council and NHS Highland use the lead authority model. I appreciate that the Scottish Government has not recommended one particular model, but I have quite a lot of experience with the lead authority model and, if someone comes to me and says, "My mum's in Raigmore hospital," for example, I know exactly who to go to, and there is no passing the buck or passing the budget.

Should we be a bit more robust? In 2001, we asked the NHS and councils to work together. Fifteen years later, because of their unwillingness to work together, the Scottish Government has had to introduce legislation—which I support—to get people to talk to each other.

We find that it is difficult to agree budgets. Is the NHS still hiding behind patient confidentiality to avoid sharing information, which is a point that Richard Simpson raised? Is legislation enough to deliver integrated authorities? The report shows that bodies cannot agree. Should we go a step further and say that the Highland model should be followed, so that we have one budget, one set of responsibilities and one accountable officer, instead of people sitting around a table and not coming to an agreement? The Highland model has been in place for a while and I think that it is good.

Caroline Gardner: I recognise the frustration about the slow progress that is being made in this difficult area—there is no doubt that it is difficult. In exhibit 2 on page 11, we give a brief history of the integration of the services in Scotland. It shows a long list of initiatives leading up to the 2014 act.

It is important to say that some things are different now. For the first time, there is a statutory requirement to have shared budgets and shared resources. In the past, that was only encouraged. There is a requirement to focus on the outcome measures rather than on activity and the sorts of things that might have been focused on before. Importantly, for the first time, the people who use the services will be required to be involved in designing their own care. Those are all new things that came with the legislation.

Having said that, on your question whether legislation is enough to make the system work in practice, I think that legislation is never enough. It can provide a useful underpinning, but it requires people to be willing to work together and to have some give and take for a genuine commitment to shared planning for the benefit of the people who use the services—in time, that will be all of us.

We cannot answer the question whether everyone should use the Highland model. The legislation clearly provides for two different models. It is interesting that everywhere except Highland is going for the integration joint board approach rather than the lead agency approach. We will continue to watch with interest how all this plays out in practice.

In my introduction, I said that this report is the first in a series of three reports that we hope to produce as the legislation is fully implemented. I hope that, as that work progresses, we will be able to answer exactly that question about which model is better and which of the 31 integration joint boards are having the most impact on changing things for people.

Mary Scanlon: I come to my final question. The NHS budget has been largely protected—although we know that there have been efficiency savings and so on—in comparison with the huge challenges for local authorities that we read about day by day and the savings that they have to make. Given that there is perhaps not quite so much pressure on the NHS as there is on councils, is that leading to difficulties in agreeing budgets?

There is another point that I will throw in. Back in 1999-2000, we were always told that there were cultural differences between the NHS and social work, for example. We were told that they did not really understand each other and that they spoke different languages and used different jargon. Is that still an obstacle to making the process work? Could you address those two points?

Caroline Gardner: I will ask Gordon Neill to comment on both points. I will kick off by saying that one of the risks that we highlight is the risk that not only are councils and health boards trying to do this at a time of tight finances and rising pressures but—exactly as you say—because of the additional pressure on councils, they have understandably responded by reducing staff numbers and outsourcing large numbers of care staff.

That raises a risk that, instead of being designed around how best to deliver joined-up services, the staff set-up that the new integration authorities inherit is designed around how people have been managing against the background of the pressures that they have been facing over a period. That will be a challenge for the authorities. There are also, as we know, a range of different terms and conditions for staff, which can make the process trickier.

Gordon, would you like to add something about the cultural and staffing differences that you have seen?

Gordon Neill (Audit Scotland): Yes. Mary Scanlon is right to suggest that the NHS has had relatively protected status—that has been a policy decision for a number of years. Social work has had to compete against other council services, so among the people who are involved in integration authorities there is certainly at least a perception that the NHS side of the authorities will have more protected status.

There is a concern—again, this is a perception and we will have to see how things pan out in the future—that social work staff might be more at risk. If the shape of the workforce has to change in future years, there is a perception that it will be easier to downsize the social work side than the NHS side.

We can already see cultural differences. There are the obvious ones. There is the politics—local authorities are very political animals. They are also very local—the clue is in the name—so they have a different perspective. There are also more subtleties in that local authorities are more used to outsourcing and using the private sector, so about a quarter of care staff come from the private sector, whereas that is not the case in the NHS. Such cultural differences will have a profound impact.

Mary Scanlon: On that point, you mention the voluntary sector quite a bit in the report as well as the private sector. Is there potentially a risk to that outsourcing of care to voluntary sector organisations such as Crossroads and others, which have provided excellent care over many decades? Is there a risk to that, given that the NHS is perhaps not as accustomed to outsourcing work, now that the budgets will sit with the NHS as well?

Gordon Neill: There is a risk of that. We have had a fair bit of contact with the voluntary sector as we have been doing this work. It is still relatively early days, but some of the voluntary sector people we spoke with did not feel that they were being engaged enough in the strategic planning at locality level. It is certainly their perception that there is a risk of their being excluded, and that it is seen as an NHS and local government agenda.

Tavish Scott: As regards GPs and GP recruitment, in paragraphs 86 and 87 you specifically mention concerns about workforce planning in the context of the delivery of integrated care, given the shortage of GPs. Just how significant is that problem? How much of a danger is it?

11:30

Caroline Gardner: We know that GPs are central to getting health and social care well

integrated and ensuring that people are kept safe and healthy in their own homes. They are key to avoiding unnecessary admissions and ensuring that people who are vulnerable in various ways get the care that they need at home and that it responds to their changing needs, and they are also key to getting people safely discharged if they need to go into hospital.

We have reported elsewhere—particularly in my annual overview report on the health service—on the pressures on the GP workforce. It is a significant enough issue that we are planning some more work specifically on the workforce in the health service, and GPs will be a key part of that. I am not sure that there is much more that we can do to quantify that just now, but we identify it as a risk for exactly those reasons.

Tavish Scott: I am sure that that is fair.

You say at the end of paragraph 87 that

“it will be many years before these measures will have a significant impact”,

the measures being the Government's interventions to try to tackle the GP recruitment shortage. This thing is meant to be up and running, but it seems that there is a fundamental issue between the availability of full-time, permanent GP staff not just in my part of the world but right across the country and the practical implementation of the policy. That sounds to me like quite a big problem.

Caroline Gardner: It would be a challenge whether the policy was in place or not. We know that GP recruitment and retention is a problem for a range of reasons, and it is not one for which there is a quick fix.

Tavish Scott: So you are flagging up a really significant issue.

Caroline Gardner: Absolutely.

Tavish Scott: Okay. Many thanks.

Stuart McMillan: In paragraphs 26 and 27, you highlight the scrutiny element of the integration joint boards. When I was on the Local Government and Regeneration Committee, we discussed benchmarking, and I know that Audit Scotland has produced reports on that. Will local government activities in the IJBs be covered under the benchmarking tool that is in operation?

Caroline Gardner: I suspect that they will not be a major part of the benchmarking operation other than in general terms through things such as corporate support services. The benchmarking project is now owned by local government and it has made big strides because of that. The primary means of benchmarking the IJB policy is the nine outcomes and the supporting performance indicators that we outline in the report. They are

much more focused on the quality of care that people receive, their experience and the experience of staff who are involved in the services. The benchmarking project may be able to make a contribution, but I think that it will be at the margins.

Stuart McMillan: That is helpful. Thank you.

Nigel Don: I want to pick up on the same issue that I mentioned under the previous agenda item. Are you confident about the asset registers and that the substantial capital assets are going to be properly assessed, valued and managed? I am conscious that local authorities and the health service are trying to fill some of their financial gaps by selling some of their land and assets.

Caroline Gardner: We know through the annual audit process that the asset registers of the 32 councils and the 14 territorial health boards are fit for purpose, with the very occasional exception. There is a question about how far those assets will be transferred into the integration authorities. They may well continue to be held by the health boards and councils, and a question then arises about who is accountable for the decision making around them and whether there may be conflicts of interest for members of the authorities.

Claire, do you want to say any more about that?

Claire Sweeney: We say strongly in the report that clear systems need to be in place and that it is important to be explicit about who is responsible for what. As we were looking at the reforms at an early stage, we were able to make recommendations about some of the risks that we saw coming through. When the partnerships go live and the financial audits start, we will be able to see how they are operating in practice, but we do not have that level of detail yet. In the report, we stress the need to have clear systems from the outset, and we will continue to look at the matter as the partnership arrangements develop.

Nigel Don: Thank you. I think that we will come back to that in a moment.

Another subject that is dear to this committee is IT systems. I presume that, if there are 31 integration joint boards, there will potentially be 31 IT systems that are separately procured and maintained and that will not talk to one another. Am I being too cynical? Is there any prospect that they will be integrated?

Caroline Gardner: I think that you are absolutely right to flag the concern. Our expectation is that, to start with, the authorities will continue to use the systems that are in place within the councils and the health boards for managing care services and health services. If, over time, integration happens, there will certainly be a real push to have much more integrated and

fit-for-purpose information systems that move on from what is there at present. I think that it is too early for us to see that being a priority for any of the integration authorities that we have looked at, but it is very much on our risk register as something that we want to keep abreast of.

Nigel Don: That means that there is a real risk that, because there are fewer health boards than there are local authorities, a health board will find that it is trying to interrogate two, three or possibly even four local authority systems, all of which are different.

Caroline Gardner: In a sense, they are already doing that, albeit not directly. A member of staff in the Royal infirmary of Edinburgh who is trying to arrange the discharge of an older patient with complex care needs will have to work with information and staff from at least four different councils before they start looking further afield. In some ways, I think that bringing that issue to the fore through the integration authorities could be a positive, but it also brings the risk—which you highlight—of attention being diverted into managing the challenges of an IT system rather than managing the care of the people involved.

Nigel Don: That leads me back to the issue of who is responsible for what and how we can see the process going. Under the previous item on our agenda, we talked about the Scottish Police Authority and Police Scotland. They are separate because the chief constable has to have operational independence. We understand that, but we also recognise that it has caused problems in recent years.

Surely we can see coming the same kind of problem—this is not meant to be a comment on any individual person—when people who head the health service are trying to work with people who head the local authorities. I am not talking about anything that is not entirely obvious.

I recognise that you cannot answer this at policy level, but from what you are seeing, do we have good models of how that might work? Do we have good examples of how people can divide up responsibilities and still come to good decisions, or are you seeing the same thing that I am seeing, which is that the vast majority of cases are prospectively a problem simply because people have split responsibilities?

Caroline Gardner: In the report, we have tried to highlight exactly that risk. I understand entirely the policy rationale for saying that the answer is not wholesale reorganisation and that we will work with what we have—14 health boards and 32 councils—and put integration authorities in place to bring services together around the key groups of people who are affected.

As I say in the report, that decision brings with it complex governance arrangements and a risk of unclear responsibilities and accountabilities and of conflicts of interest. That is why we are recommending that those things are pinned down at this stage, before people take on their operational responsibilities in three months' time.

As you say, in the case of policing in Scotland, we have seen the impact that such arrangements can have. We are talking about another group of very significant public services that spend lots of money and affect people's lives. I am keen for those arrangements to be clarified now, to avoid the risk of those effects happening as the reforms roll out.

Nigel Don: Therefore, should I expect you to do something to audit those arrangements before we get too far down the road?

Caroline Gardner: Again, this report is the first in a series of three planned reports that will enable us to stay close to what is happening in practice.

Nigel Don: When will the next report come out?

Claire Sweeney: We will do stage 2 once the arrangements have been in operation for a full year. We have a further piece of work scheduled for later to look in the longer term at what impact the reforms have had. That is our plan as far as the national performance audit work is concerned.

Of course, local audit work will be done routinely throughout the process, which will look at the parent bodies as much as the new arrangements, once they are established. We will also have on-going discussions with all the parties that are involved as the reforms start to take effect.

As the Auditor General has said, we are clear that there is a big risk, so we want to stay very close to it.

The Convener: As Mary Scanlon said, we have been looking at such partnership arrangements for a number of years, going way back. I remember the social inclusion partnerships that existed when I was a councillor in the late 1990s, which involved local health boards forming partnerships with the local authorities. Even then tensions existed because there were, in effect, two budgets—the health budget and the local authority budget. Those tensions continue. Indeed, I cannot see any evidence that progress has been made in that regard, because while everyone may present a picture of partnership, in practice there are significant tensions. That has been a significant challenge in different authorities.

This is not a policy question, but if we had one budget and, for example, local authorities were responsible for healthcare as was the case in the distant past, would that make it easier to audit things and to ensure that the work was

progressed, because we would not have two budgets for which both authorities were responsible?

Caroline Gardner: As Mrs Scanlon highlighted in her question, one option under the legislation is to have a lead agency model. In Highland, the council is responsible for all children's services and the health board is responsible for services for older people. Only Highland has chosen to go down that route. Why that is the case is an interesting question. The other 31 integration authorities will have to have a single budget for money and resources such as staff and so on. That is a new development; it has never previously been a statutory requirement in the long history of initiatives and approaches to try to get integration. That may make a difference.

As you said, there are challenges and tensions. We have tried to highlight the risks that we think need to be managed before 1 April and we will, as Claire Sweeney said, continue over the next 12 months to look at what happens. However, I cannot give you a definitive answer about what we will see in that work.

The Convener: We talk about the public having confidence and there being transparency in the arrangements. I would defy any member of the public to interrogate the information and say, "Yeah, I really understand what's going on in the local health partnerships." Even for those who are well informed, it is extremely challenging to be completely aware of what is in place locally. Most members of the public want to know how to access local services, but even that is a challenge because of the complex arrangements that have been put in place for various reasons. Does that not also present a challenge in auditing how effective the organisations are being?

Caroline Gardner: It is complex. If the policy works well, people will know how to access the services that they need. At the end of the day, it should not matter to them who is responsible for providing the services if they are available readily at the time that they need them and are of the right quality. That is what matters to most of us. The challenge will relate to what will happen if the policy does not work well and, particularly, to establishing who is formally responsible for the quality of care, as well as for the money that is spent. That comes back to our recommendations about clarifying the situation before 1 April, so that everyone who relies on the services gets what they need.

Dr Simpson: You have said that GPs are fundamental to the reform. They were very disengaged from the community health partnerships. Have those all been abandoned to be replaced by the integration joint boards or the integration authorities?

Caroline Gardner: I think that they were disbanded under the legislation.

Dr Simpson: Has that happened?

Caroline Gardner: Yes.

Dr Simpson: What about the staff? Do we know whether they were made redundant? There are obviously costs involved in the reforms.

Caroline Gardner: Yes. This is not a reform programme that has led to the redundancy of the staff involved. Those staff tend to be people who continue to deliver services and, as far as the management of their responsibilities is concerned, some of them will move into the integration authorities. We will be picking up that issue in the next phase of this work.

The Convener: I thank the Auditor General for her briefing.

Section 22 Report

“The 2013/14 audit of North Glasgow College: Governance and Financial Stewardship”

11:43

The Convener: Agenda item 4 is on the section 22 report on the 2013-14 audit of North Glasgow College. I seek colleagues' views on the responses received.

Mary Scanlon: We are publishing our report on Coatbridge College today. There are similarities between the issues at that college and those at North Glasgow College, particularly in relation to Scottish Further and Higher Education Funding Council guidance. Given our work on Coatbridge College and the wider college sector, as well as the response that we have received from Paul Johnston, we have covered many of the issues that were of concern at North Glasgow College. Therefore, I am quite happy to leave the matter there.

Colin Beattie: I do not see where we can go from here. I suggest that we note the report. I agree with Mary Scanlon that the issues that the SFC and the Government are addressing here are similar to those at Coatbridge College.

11:45

Tavish Scott: I agree with my colleagues. Laurence Howells of the Scottish funding council wrote to the clerk. I just want to pick up on the part of his response on severance payments. We still have not had the full breakdown of the table that we were promised in—I cannot even remember when that was. Was it October or November? It was some time in the autumn.

It is not acceptable for the Scottish funding council not to provide the committee with information that we have asked for. The only point that I would add to those of Mary Scanlon and Colin Beattie is that we should write formally to Laurence Howells to say, “Give us the information.”

Nigel Don: Through the work of this committee, issues affecting several different colleges have been highlighted to the Government, to the extent that it is now reflecting on how to address some of those matters. Indeed, a task force is looking at the situation. We should recognise the progress that the committee has made and, as colleagues have said, just leave the matter there for the moment.

Dr Simpson: Laurence Howells's answer to our question about support and issuing guidance and

so on was extremely weak. I will not use the word that I have used in private, but that weakness gives me cause for concern about whether the organisation is fit for purpose.

The Convener: We have requested the information to which Tavish Scott referred on a number of occasions; we have also asked to receive complete information. This is not the first time as committee convener that I have had to highlight that information has not been received from the Scottish funding council. We will once again write to it and remind it of the importance of providing such information and how helpful that is for the committee in carrying out its responsibilities. Laurence Howells should reflect on that.

I also support Richard Simpson's comments about the Scottish funding council's response. It did not reissue the guidance; rather, it only reminded the colleges of the guidance. Given that the SFC was processing more than £53 million-worth of public money as part of the severance arrangements, reissuing the guidance would have been more effective. Now that the horse has bolted, it is simply not good enough for the SFC to say that it will look at doing that in future. That was a serious failing on the SFC's part, which we have recognised in our report on Coatbridge College. Given the resources available to the SFC, it would not have been beyond it to have carried out what would have been a pretty minimal administrative task and included a copy of the guidance.

Do members agree to note the correspondence, taking into consideration our recommendations in the Coatbridge College report?

Members indicated agreement.

The Convener: We will write to the Scottish funding council to remind it of the information that we require in respect of the table that was mentioned.

Section 23 Report

11:48

Meeting continued in private until 12:12.

“Efficiency of prosecuting criminal cases through the sheriff courts”

11:48

The Convener: Agenda item 5 is consideration of the Scottish Government's response to the AGS's report “Efficiency of prosecuting criminal cases through the sheriff courts”. We have a number of options. Do members simply want to note the correspondence received?

Members *indicated agreement.*

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