

# **AUDIT COMMITTEE**

Tuesday 31 May 2005

Session 2

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## AUDIT COMMITTEE

### 11<sup>th</sup> Meeting 2005, Session 2

#### CONVENER

\*Mr Brian Monteith (Mid Scotland and Fife) (Con)

#### DEPUTY CONVENER

\*Mr Andrew Welsh (Angus) (SNP)

#### COMMITTEE MEMBERS

\*Susan Deacon (Edinburgh East and Musselburgh) (Lab)

\*Robin Harper (Lothians) (Green)

\*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

\*George Lyon (Argyll and Bute) (LD)

\*Mrs Mary Mulligan (Linlithgow) (Lab)

#### COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)

Mr Ted Brocklebank (Mid Scotland and Fife) (Con)

Marlyn Glen (North East Scotland) (Lab)

Mr John Swinney (North Tayside) (SNP)

\*attended

#### THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)

#### THE FOLLOWING GAVE EVIDENCE:

Caroline Gardner (Audit Scotland)

Alastair MacNish (Accounts Commission)

Bill Magee (Audit Scotland)

David Pia (Audit Scotland)

Gordon Smail (Audit Scotland)

#### CLERK TO THE COMMITTEE

Shelagh McKinlay

#### SENIOR ASSISTANT CLERK

David McLaren

#### ASSISTANT CLERK

Clare O'Neill

#### LOCATION

Committee Room 1



## Scottish Parliament

### Audit Committee

*Tuesday 31 May 2005*

[THE CONVENER *opened the meeting at 10:02*]

### Items in Private

**The Convener (Mr Brian Monteith):** We are all present and correct, so I open the 11<sup>th</sup> meeting this year of the Scottish Parliament's Audit Committee. I welcome members of the committee and the Auditor General for Scotland and his team.

Item 1 is consideration of whether to take item 6 in private. We must also decide whether to take in private at our next meeting consideration of lines of questioning for our inquiry into three section 22 reports by the Auditor General: "The 2003/04 Audit of Lews Castle College"; "The 2003/04 Audit of West Lothian College"; and "The 2003/04 Audit of Inverness College". Do members agree to take those items in private?

**Members** *indicated agreement.*

## Debate in Parliament

10:04

**The Convener:** Item 2 is consideration of a paper on the possibility of holding a debate in the Parliament on Audit Committee business. Members have had the opportunity to read the paper and will recall that it was inspired by our visit to Westminster, where we learned that debates on Public Accounts Committee business take place, in which all members of the Westminster Parliament have the opportunity to take part. The paper explores possible approaches to seeking an Audit Committee debate to enable members of the Scottish Parliament who are not members of this committee to discuss our work and reports.

The paper lays out a number of options. I will go over them for the benefit of those who are listening to or watching the meeting. Option 1 is to debate a single report, which would allow members to debate an issue, after which the appropriate minister could respond. Option 2 is a general debate on the Audit Committee's work, perhaps based on our annual report, which would allow a number of issues to be explored that pertained to the reports that we have done in the year and the issues that we have considered. The obvious difficulty with that approach—although I do not say that it is insurmountable—is that of finding a minister to respond, given that they would have to cover a variety of issues. That route would require further work by the clerks to explore how such a debate might be achieved.

Option 3 is a thematic debate, not on a particular report by the committee, but on a general theme that covers a body of work that we have completed by issuing a number of reports. For instance, we have produced a number of reports on health matters. Another example would be further education, on which, over several years, the Audit Committee has produced a number of reports. There are a variety of opportunities. Option 3 would at least allow a minister to respond to the debate. I will flag up another option that might be possible, but which would have difficulties. We could debate Audit Scotland's annual report, but the difficulty of debating the work of Audit Scotland, which is accountable to the Parliament, is that there would be no minister to respond to the debate.

Certain issues arise from the options. We would have to ask the clerks to explore the procedural matters further and to get the Executive's views. It is not necessary for us to decide today what we want to do, but if members share their views or give a steer to the clerks, we could put together a new paper for our away day—which will probably be in September—when we can work through the

issue more carefully. The issue has been on the table for a good number of months now and, as the summer recess is approaching, if we are to discuss the issue at the away day, it would be useful if members expressed their views now.

**Mr Andrew Welsh (Angus) (SNP):** Your introduction has explained the difficulties, convener. Because of the range of reports and their in-depth nature, it is difficult to discern what constitutes a typical report of the committee. Therefore, a debate on a single report would have too narrow a focus and would simply duplicate work that we have already done. Equally, a general debate might be too diffuse and unfocused. That would not reflect our work, which is usually focused and highly specific and which usually leads to specific recommendations for practical action. Therefore, I tend towards a thematic debate on a wider set of issues. A debate on a general theme would be useful and could lead to general conclusions that apply to the range of Government services or to a specific Government department.

**Robin Harper (Lothians) (Green):** I take a slightly different view. It would be much better for us to have as our first debate a subject that is clearly focused and makes parliamentary and external perception of what we are doing easier. Things change all the time, and I see no harm in revisiting one of the big areas—we cover a lot of different health issues, for instance. Having the Minister for Health and Community Care respond to a debate on the work of the Audit Committee could be extremely productive and could excite a great deal of interest. We want people to know what we are doing and to be interested in it. Surely that is part of what we are about.

**The Convener:** A further possibility is that of not treating the options as mutually exclusive. If we were to say that we wanted a general theme for a debate to be health, for example, or a particular aspect of health, we might frame the motion around the fact that we are about to publish a report into the overview of finance in the health service. Any such debate in the chamber would not happen until October or perhaps November at the earliest, depending on the availability of time. We have to seek agreement from the Conveners Group if we are to make a bid for available committee time in the chamber.

I use the context of an individual report—although it is difficult to know at this stage which report might be chosen—to give the committee an idea of where the suggested thematic approach comes from. However, the options might work together.

**Susan Deacon (Edinburgh East and Musselburgh) (Lab):** We should definitely have a parliamentary debate, not just because it is only

fair that we give our 122 colleagues an opportunity to share in the delights of the analysis that we have been engaged in for the past couple of years, but because a lot of the work that we have been doing complements many of the policy debates that have taken place elsewhere, both in other committees and in the chamber. I was interested to listen to the comments of Andrew Walker, the health economist, on the Kerr report last week. He spoke about how the report had set out—as he put it—a structure for the way forward in the health service but had not yet set out what the engine was going to be. Much of our discussion has been around the question of the engine, not just in the health service but in public services more generally, and about how we make improvements when shortcomings are identified. How is action taken on that? How is learning shared, not just within but between public services, on a whole host of areas, such as information technology development or management skills, that have a wider resonance beyond an individual report that we have been considering?

All that leads me to suggest that we should have a debate with a thematic approach that focuses on monitoring and improving public services, or some such title. A significant element of such a debate would relate to the health service because we have considered health; however, it would be wrong just to focus on the health service. We have considered the prison sector, aspects of education and issues such as potholes in the roads. All those are important as regards the how-to questions—how to make those things happen, rather than just what should be done, which is more to do with what other committees consider. We have a real opportunity to take the work of the Parliament into the wider domain. It is important to give people a sense of all the work that has been going on. However, a crucial point is that I would hope that such a debate would inform the Parliament's wider deliberations about public service development.

10:15

**George Lyon (Argyll and Bute) (LD):** The committee's key role is to consider the economy, effectiveness and efficiency of public sector spend. It is not about policy, but about how policy is delivered and whether that is done effectively and efficiently. Ultimately, the committee is about ensuring value for money. We do not hear much about that in debates in the Parliament, as we tend to focus on the policy issues rather than on whether, once the policy is decided, we get value for money in what is delivered.

The conclusion to be drawn from that is that our debate has to be a thematic debate based on the key principle of value for the public purse. That

takes us into the range of the different reports that we have done. The health service is the subject that a lot of us would tend to major on, given the fact that it receives the biggest spend and, over the past three or four years, has undergone some of the biggest changes that we have seen in many a long year. The key themes would be value for money, the work that we have done to examine whether the public purse has been well spent and some of the lessons we have learned.

One of the key issues is how we trace how the public's money is spent through councils, given the fact that a lot of our initiatives and policies are delivered by local government, which is not accountable to the Parliament. There is a strong theme about the problems that the committee has experienced in trying to drill down to ensure that the money has been well spent. If the theme is value for money, that will allow us to speak on a range of different subjects that we have examined, and the key issue will be how well the taxpayer's pound is being spent.

**Mrs Mary Mulligan (Linlithgow) (Lab):** When I read the options in the report, my feeling was that we should have a thematic debate. I am sorry to say that what Robin Harper has just said has convinced me that that is the right thing to do. I do not want us to get into yet another health debate, as I have great concerns that we would become the Health Committee mark 2.

I agree with various aspects of what the other three members have said. This is about taking a more general view of how we spend public money and how we bring about some of the changes. It is also about examining how things can improve. George Lyon has said that we might major on health because that is the area in which there is the biggest spend, but we might focus on some of the other areas, such as recycling, in which we have seen vast changes with the investment of only a little bit of extra money. Using such examples might help to inform our debate and highlight where other areas could make similar improvements in the changing circumstances in which they find themselves.

I am not going to repeat what everybody else has said, but I think that a thematic debate is the way to go. However, we would need to be clear about what the themes would be.

**Margaret Jamieson (Kilmarnock and Loudoun) (Lab):** What has been said this morning confirms my view that, if we are to have a debate, it must be a thematic one. Issues have cropped up since 1999 that recur in our recommendations, and that is something that I want to debate in the Parliament. It is tiresome that we keep having to make the same recommendations. Irrespective of which department is involved, there is a theme running

right through. We have the opportunity to engage with colleagues who have not been on the Audit Committee and who think that our work is all about figures and can be quite dry. In fact, the opposite is true.

**Robin Harper:** I seem to have been reduced to a minority of one; however, I am quite used to that. As long as the themed debate is based on the reports that we have made and holds the Executive to account on the things that we have asked for in those reports, I am happy to have such a debate. However, I would not be happy with a general discussion around a series of themes, as that sounds a bit vague. That is why I thought that we should address one minister and one report. For example, the committee's debate could be held six months to a year after the production of a report, so that we could ask the Executive what movement there has been on the report's recommendations.

**The Convener:** I invite the Auditor General for Scotland to comment or to make observations.

**Mr Robert Black (Auditor General for Scotland):** Some weeks ago, the committee gave its blessing to my forward work programme, which will take us into 2006. I shared with the committee the intention to produce as part of that work a series of integrated overview reports on major areas of public spend in Scotland as a rolling programme. It strikes me that themes that will emerge from the integrated reports might merit being the basis for the committee progressing issues, perhaps ultimately to a debate in the Parliament.

The first report that we will attempt to produce is a pilot that will consider transport investments and the financing system in the round. It will be out towards the back of the end of the year. That is one example.

The committee will recall that one or two major projects in the programme will consider the implementation of major public policies. The McCrone settlement for teachers, in which there has been significant investment, is an example. To use Susan Deacon's appropriate phrase, we will consider the engine for delivery of the McCrone deal. That is clearly a major area of policy implementation and there will be wide interest in the Parliament in the matter.

In our programme of studies, it will certainly be possible to produce significant pieces of work that the committee can use as the basis for progressing matters if it wishes to do so. That means that I will be keen to ensure that future dialogue with the committee on the forward programme takes into account the committee's concerns about major areas of public policy implementation whose delivery systems might merit examination.

**The Convener:** As no member wants to make any further comments, I will conclude the discussion. Given what the Auditor General and committee members have said, I suggest that we invite the clerk to prepare a paper for our away day that develops paper AU/S2/05/11/1 and focuses on option 3, what the construct and parameters of such a debate might be and what the Executive's input to it might be. We can then have a further discussion. Do members agree to that suggestion?

**Members** *indicated agreement.*

## **“The 2003/04 Audit of Argyll and Clyde Health Board”**

10:23

**The Convener:** Agenda item 3 is consideration of a response from the Scottish Executive to our first report of 2005, which is entitled “The 2003/04 Accounts of NHS Argyll and Clyde”. Members have a copy of the response from Kevin Woods, who is the accountable officer for the Health Department, and a copy of last week's ministerial statement on certain aspects of Argyll and Clyde NHS Board. Members may make points and consider whether we need to respond to the Executive.

**Margaret Jamieson:** I would like more information on what will happen in the Health Department, as we were critical of its involvement in certain areas. Kevin Woods says that work will be undertaken by the department. Can we get a copy of that information when it becomes available? I hope that we will not have to wait too long for it.

**George Lyon:** I am reassured that, in respect of some of the principal conclusions, the Health Department accepts the criticisms that have been made and states what it will do to try to improve how it engages with boards and, specifically, how it deals with accountability reviews and financial recovery plans. The department acknowledges the validity of our criticisms and indicates that action will now be taken to improve the way in which the process works.

I hope that our future work will be helped if there is more transparency in how financial recovery plans are evaluated by the Health Department. I also hope that there will be more transparency in how boards demonstrate that they will recover from the financial positions in which they find themselves.

All in all, I thought that the Health Department agreed with a good lot of the criticism that was made and that it is now taking action. Of course, the proof of the pudding will be whether that is shown to have been followed through in the reports that we get from the Auditor General and whether we see in a year's time that action has been taken on the ground.

**Susan Deacon:** Like colleagues, I have studied with considerable interest both the Health Department's response to the committee and the minister's statement last week. I feel bound to make an overriding observation before I raise a couple of specific points about the department's response. It is important to state that I do not recall that we stated anywhere in the 140-page report

that the root cause of the problem, or indeed, the solution for the board, was structural reform. The independent support team that the previous minister sent in to examine the situation some two and a bit years ago also did not suggest that that was the case. I have re-read the comments in the independent support team's report, which are replicated in our report.

I note that the response to our report majors on structural change to the board, yet our conclusions did not do so. Interesting questions can be raised about the impact that that might have on the key observations that we made about the need to take forward service changes and to develop a revised clinical strategy.

I will make a couple of specific points about the department's response. The key issue that was at the core of what we examined, which was the agreement of a financial plan, is referred to at the bottom of page 3 of the department's response. The Executive has failed to address the fundamental question of why it did not bring the issue to a conclusion earlier. I recall that in evidence to the committee it was accepted that that was the department's job. There are warm words in the Executive's response about improvements in relationships, but a critical question remains. The question I pose, to which I do not know the answer, is: how can such a situation go on for so long? Despite the 22 meetings that we have discussed so often, no agreement was reached. That key question about why matters were not brought to a head still has not been addressed for the future.

I am not sure where, if anywhere, we go from here. I felt that the billing of both the minister's statement in the chamber and the Executive's response as a response to the Audit Committee's report was a bit of a misnomer. They are perhaps parallel or possibly even complementary to our observations, but I am not sure that they are altogether a response to them.

10:30

**The Convener:** Members will recall that I had the opportunity to ask the final question on the minister's statement, when I flagged up the possibility of the committee being given a briefing. The committee could consider that possibility today. I have discussed it and our work schedule with the clerks and I have considered what might be happening in the Health Department, and I think that a briefing given now or before the end of the term would probably not elicit a great deal of information because the work is in progress. If the committee is minded to take a briefing from Kevin Woods, that might be more usefully scheduled for October. We would then be able to pick up some of our questions about the Executive's response

and see what progress has been made. I put that on the table as a suggestion because the minister seemed to be accommodating on that.

**Mr Welsh:** I am happy to link what you have just said to Susan Deacon's remarks, because I share the doubts that she expressed. It is unfinished business; the situation is on-going and the Executive's response has to be checked against the reality. However, I notice that there is agreement on eight of the points on which we reported; another two have been acknowledged; and a review is promised or will be undertaken on another five. I get the feeling that there is still unfinished business but at least we have had some indication that things are going in the right direction. That links in with what you suggested about checking against delivery. I am happy that the Executive is considering those points but we have to check action against delivery, which we can do using your suggested mechanism.

**George Lyon:** As a point of interest, if members recall our evidence sessions with the Health Department and the health board, the fundamental disagreement was over the validity of the statement that the financial recovery plan could be implemented within five years. On the one hand, the board said that it could not deliver the plan any more quickly than that because doing so would impact on service delivery. On the other hand, the Health Department alleged that the plan could be delivered much more quickly, although it was not able to provide any evidence to underpin that view. Guess whose financial recovery plan has now been agreed? It is the plan that was proposed by Neil Campbell and the board. There was certainly scepticism in the committee about the Health Department's ability to convince us that it was right and that the board was wrong, which seems to have been acknowledged in the Executive's response to our report.

**The Convener:** At this stage, I invite the Auditor General or any member of his team to comment.

**Mr Black:** We have no comments.

**The Convener:** Are there any further comments from members before we try to reach a conclusion?

**Susan Deacon:** I have a comment on the suggestion of a briefing. At some point, we should accept Kevin Woods's offer of a further briefing, but it would be inappropriate to focus such a briefing specifically on Argyll and Clyde NHS Board when we have raised much wider issues, such as the financial overview, that would better lend themselves to a briefing from the head of the Health Department. It would be helpful if we could ask for a written report on how the proposed structural solution has delivered improvements in the financial situation or in service delivery in the

area. I do not know what the appropriate timescale for that would be—perhaps six months or a year from now.

**The Convener:** On that point, I suggest that, given that we have not yet published our report on the financial overview and so have not had a response, the committee could agree to invite Kevin Woods to give us a briefing on Argyll and Clyde NHS Board in the autumn. By that time, we will probably have had a number of committee meetings at which the written response from the Executive to our financial overview report will have been discussed, so we could schedule any further briefing on that report for the same day. We could take that briefing once we know where we are on the issue. Does that meet with the committee's agreement?

**Mr Welsh:** Yes. We are talking about a fundamental principle. We make specific recommendations and it is crucial that those who are responsible for carrying them out answer to the committee on whether they have indeed been carried out. We are really talking about follow-through reports. It would be a mistake if officials could leave a committee meeting and not be questioned about a matter again. It is important that we see practical, real action on the recommendations or hear reasons why they cannot be implemented.

**The Convener:** Just to clarify, I seek the committee's agreement to invite Kevin Woods to brief the committee on Argyll and Clyde NHS Board on a date to be determined after the recess. I also invite the committee to agree to consider at a future meeting whether to ask Mr Woods to brief us on our forthcoming report, "Overview of the Financial Performance of the NHS in Scotland 2003/04".

**Members indicated agreement.**

**The Convener:** Before we move on, I take the opportunity to welcome Alastair MacNish and his team from the Accounts Commission, who will give evidence to us in relation to a later agenda item.

## Community Care

10:35

**The Convener:** Item 4 is consideration of a response from the Executive to the committee's second report of 2005, on community care. Members have had an opportunity to consider the response, which is quite lengthy because it contains substantial annexes.

**Mr Welsh:** In annex A, the Executive responses to paragraphs 10 and 16 of our report reflect a measure of disagreement about costs and expenditure. According to the Executive response, "the original cost evaluation exercise produced a robust estimate of costs".

That was certainly not my impression. Again, the response to paragraphs 27 and 30 does not address the seriousness of the committee's concern about the lack of

"systematic risk assessment on the consequences of inaccurate estimates".

I am not sure that the response addresses the serious matters that we raised about the need for accurate and robust figures on which to base policy.

**The Convener:** A difficulty with the response is the degree to which the Executive agrees with us without saying that it has accepted our recommendations. The response suggests that the Health Department is undertaking a number of initiatives that will respond to our recommendations, but it does not give the committee the credit for that activity. The response is somewhat vague about the catalyst for action in relation to a number of matters.

**George Lyon:** The response highlights the problem that arises when Scottish Executive policy is delivered through local government. Many difficulties to do with identifying spend and tracing its progress and effectiveness arise because there is a lack of information from councils. The response to paragraph 16, on the committee's concerns about expenditure projections, says:

"The allocation announced in 2002 provides *additional* funds to extend the delivery of personal care services to those people who would previously have had to pay for them."

However, the response continues:

"The expenditure returns from local authorities represent *total expenditure* on this service and include expenditure incurred for those people who previously have received the services for free."

That is an assertion, rather than a statement based on evidence of exactly what was spent in years gone by. Our problem is how we drill down and ascertain whether the assertion is correct. The

only comfort that I take from the response is in the fact that the Executive will take action to ensure that a proper reporting system is put in place. The response says:

"The Executive is arranging for cost information now to be provided through the Local Government Finance returns, with immediate effect (from 2004/05)."

Will the Auditor General for Scotland comment on whether that mechanism will be effective in gathering the information that is needed to evaluate the effectiveness of the policy and to ascertain whether money has been distributed appropriately to deliver the policy? I do not know what is meant by "Local Government Finance returns".

**Mr Black:** How long have you got to talk about local authority financial returns, which remind me all too well of my past life in local government? Local authorities make a complex set of returns to Government for all sorts of purposes through the local financial returns system. They are not returns that we audit. There is always a problem with those returns in assessing what exactly they are measuring and making like-for-like assessments. Given the complications that the committee and I recognise in the whole area, we have to acknowledge that it will be a considerable challenge to get robust data. The move to incorporate this major cost area into local financial returns is to be welcomed, but my immediate thought is that a lot of work would require to be done to get the LFR system to provide robust information that would inform how well the policy is being implemented.

**Susan Deacon:** As the convener identified, the Executive's response concurs, whether explicitly or implicitly, with a number of the concerns raised by the committee. While we continue to be concerned that it has taken a number of years for some of the questions to be asked and data to be gathered, we can only welcome the fact that there is at least an indication that it will happen now. The proof of the pudding will be in the eating, but for now I am happy to take the commitments at face value.

I have three points on the wider report. The first is that annex B on pages 10, 11 and 12 summarises the background to the policy and gives edited—and rather sanitised—highlights of the sequence of events that led to certain decisions being taken. As somebody who, perhaps more than most, still bears the scars, I do not want to replay those decisions, but I note that one of the things that the committee confirmed and recorded was that the original costing did not emanate simply from the care development group. Rather, that figure pre-dated the establishment of that group and was an identified envelope of

resource for the policy. That point is missing in the historical account.

Secondly, I welcome the emphasis that is put on local improvement targets as a way of developing successful joint working, but I seek clarification. I am interested to know more about how the Executive plans to take that forward. I hope that they genuinely are what I would describe as local improvement targets, in the sense of having grown from the bottom up. I still worry that an awful lot of the narrative and the action around this is top-down guidance, as distinct from supporting and enabling local service deliverers to come together and improve matters at the front end. I am keen to know more about what local improvement targets will look like. I do not know if we can request more information on that in writing.

Thirdly, there is considerable emphasis on evaluating the free personal care policy and other areas through the eyes of service users and carers, much more so than has been the case in the past. That is to be welcomed, but it would be useful as the process evolves—maybe it is too early to ask the question—to know how the Executive or those who are carrying out the research on its behalf plan to do that.

10:45

**Margaret Jamieson:** Our paragraphs 19, 20 and 25 related to councils providing only estimates, or no information. I am absolutely astounded by the Executive's admission that councils were required to submit the information only on a voluntary basis. That certainly never came out in any of the evidence that we took and to see it just shoved in is extremely surprising. The response to paragraphs 19, 20 and 25 and to paragraphs 21, 22 and 23 totally misses the point about our requirement that the Executive has demonstrated to it what is being delivered in each local authority area in relation to the policy. The information that we have gives me no comfort that in a year's time we will be able to say that every single penny is being spent in the appropriate area.

The response does not consider the fact that it is not just local authorities that have to provide the care; it needs to be provided in a partnership. I note that in the response to paragraphs 21, 22 and 23 the Executive talks about a "wider care package". Again, that is paid for from the public purse. It might be provided from the health service, through the voluntary sector and the local authority. I do not think that it is beyond the wit of the Executive to be able to track that. I have real concerns that the answers that the Executive has provided totally miss the point.

**The Convener:** As a committee we need to decide how we wish to respond to the Executive's response to our report. The most appropriate way to raise the points that members have outlined might be for us to write directly to the Health Department, pointing out our concerns and seeking clarification. As well as setting out the points that Margaret Jamieson and others have made, the letter should also, more usefully, refer to the "Scottish Public Finance Manual", which outlines how responses should be framed, so that we can get a better idea of whether a number of the Executive's actions relate to our recommendations. It is not so much that we need to show that the committee has an impact, because that is clear from the previous agenda item; we want an audit trail of the recommendations so that we know exactly how the Executive has decided on what action to take and whether our recommendations were a catalyst. Do members agree to send a letter to the Executive seeking clarification of a number of points?

**Members indicated agreement.**

**The Convener:** We will draft a letter and circulate it in the normal fashion. That ends agenda item 4. We are a little bit ahead of schedule—shock, horror—so I suggest that we take a comfort break and reconvene at 11 o'clock.

10:49

*Meeting suspended.*

11:03

*On resuming—*

## Accounts Commission

**The Convener:** I welcome members back for agenda item 5, for which I am pleased to welcome Alastair MacNish, who is the Accounts Commission's chairman, and his team, which I will run through for everyone's benefit. We have Caroline Gardner, whom the committee knows well and who is the deputy auditor general and controller of audit; David Pia, who is the director of performance audit in local government; Gordon Smail, who is the senior manager of performance audit; and Bill Magee, who is the secretary to the Accounts Commission.

The evidence session's purpose is to provide an update on performance and best-value issues in relation to local government. This is the second of the committee's annual evidence sessions with the Accounts Commission; the first took place in April last year.

Members are reminded that, as agreed, when the committee takes evidence on local authority matters, its interest will focus on local authorities' performance nationally and not on individual local authorities' performance.

I invite Alastair MacNish to make an opening statement.

**Alastair MacNish (Accounts Commission):** I thank the committee for the opportunity to share some of the key findings of the "Overview of the local authority audits 2004" and to say a few words about progress on the best-value audits that I promised last year.

First, on a positive note, the overview confirms that financial stewardship among authorities remains sound, in general. We made that statement last year, too. It is important to stress that that remains sound.

Secondly, for the fifth consecutive year, council tax collection rates have improved throughout Scotland. Our collection rate was initially 9 or 10 per cent behind that in England, but we have now halved that difference. Scottish local authorities' collection rate was 92 per cent, although England's rate is 96 per cent. For five years in a row, progress has been made on council tax collection. Members may note that that has had quite a lot of publicity. Councils are trying to collect more and it is hoped that that will continue.

Thirdly, it may not have been obvious from the report, but 500,000 more attendances were made at council pools and leisure centres throughout Scotland. That is good news about local

authorities' provision for the health agenda and healthy living.

On the flip-side, although the waste recycling rate has increased to 12.3 per cent, which is an increase of 2.7 per cent, it is still well short of the Executive's target for 2006 of 25 per cent. I know that much work is taking place and that much money is being spent, but we still need to concentrate efforts on achieving at least that target in all councils by 2006.

One major advantage of our joint studies with the Auditor General for Scotland was the major report on road maintenance, which highlighted serious problems in most councils of meeting their road maintenance responsibilities. The background to that is that emergency repairs continue to be made. Patching is the order of the day, rather than structured remedial work through a planned programme. That remedial action is now required urgently. We stress that we would like each council publicly to declare annually the condition of the road network in its area and the maintenance backlog. If that information were published annually rather than appearing in findings from a report, that would keep the matter in the public eye and in front of the councils. Moving down that road would be another step in the right direction.

Audit committees have been established in all councils, but their effectiveness in several councils remains questionable. A major reason for that is the lack of relevant management information, which hampers proper scrutiny. Often, the committees' remit is too narrow and is far from clear. The Audit Committee would empathise with the question of how committees that are not given the right information can properly scrutinise bodies. Much work is still required on audit committee structures in local authorities throughout Scotland.

At the centre of recent media attention have been balances and reserves. General fund balances increased by 20 per cent in 2004 to £384 million. A misconception was held about the Accounts Commission's report and the controller of audit's report. We questioned not the level of reserves, but whether each council had a clear and transparent policy on reserves, which they should explain to the public in their area. There are various reasons for having reserves, such as hypothecated expenditure and keeping a prudent reserve for emergencies. However, the policy needs to be spelled out to the public in each area. As long as they are spelled out and are clear, reserves and balances will be challenged appropriately, whether the reserve is 1 or 10 per cent. That is the message that we are trying to convey. I felt slightly embarrassed, because there were one or two council leaders—City of

Edinburgh Council's leader, for example—whose reserved balances are clearly explained and are at prudent levels, but because the overview lumps everything together it looked as if all councils were being criticised for that. I wanted to set the record straight in giving evidence today.

Turning briefly to governance in local government, we are pleased that elected members are becoming more involved in best value and community planning, in which they have a statutory duty to be involved. However, more relevant training and support is necessary. It is all very well giving elected members a statutory duty, but you also have to give them appropriate training and support, whatever area they come from.

Public performance reporting is improving, but I have to say that the material lacks balance and, not surprisingly, is heavily weighted towards good news rather than what needs to be improved. There has to be a better balance, but as chairman of the Accounts Commission I would say that. It might have been different in a previous life.

Finally, I would like to say a few words on best-value audit. We have audited and reported on four councils. Reports on a further four councils will be out in the next two months, one of them in a couple of days' time. By the end of the year, a third of all councils will have been audited. The conclusion so far is that councils have made a genuine commitment with their self-assessment—the first part of the process—which has been open, frank and honest. That is a major step forward in achieving best value and improvement in service. As a result of the audits, we have agreed individual improvement plans with each of the councils, and Audit Scotland will continue to monitor that process. It will not just go away; we shall then monitor in detail the improvement plans that are created. In addition, we have made a commitment to meet each council after the audit is complete, to go over the findings and the improvement plan. For example, on Thursday I shall be meeting representatives from North Ayrshire Council, the second council to have its audit finalised.

My opinion is that the best-value regime is the most effective vehicle that we have for improving the quality of service provision across the whole public sector, not just local government. I leave you with that thought, and I am happy to answer any questions.

**The Convener:** Thank you, Mr MacNish. Before we ask questions, I remind members that copies of the best-value audits for North Ayrshire Council, Shetland Islands Council and Stirling Council were circulated in advance of the meeting. Members also have copies of the report, "Overview of the local authority audits 2004". However, members should bear it in mind that the overview report is

not laid before the Parliament, so we are not in a position to report on it. Nevertheless, it helps to inform the committee of the work of the Accounts Commission.

I have two questions. The first is about best-value audit, to which you referred and which is of interest to the committee. Can you say at this stage that best value is having an impact?

**Alastair MacNish:** The realisation by councils of the statutory duty that is placed on them became more relevant in itself. I have to say that the first four councils to undergo a best-value audit have made a genuine effort, and I hope that the next four will also make such an effort. Even the councils that have come out with good reports have identified areas in which they can improve. I therefore feel positive and am reassured that the councils are trying hard and that the process will bring about improvement. It will take time. It does not matter what you put in place; it will not happen overnight and some councils will take a lot longer than others. All that I will say is that I do not believe that any council will get away with not taking best value on board and treating it seriously. If we fail to insist on that, we are at fault and the councils can easily walk away from the process. The very fact that they have signed up to the regime and are now—to judge by the example of the councils that we have dealt with so far—totally committed to it is in itself a step in the right direction.

**The Convener:** You mentioned that it might be helpful—not just for the councils, but for the public—if councils had clear policies and provided clear information on the levels of local authority reserves and the state of local authority roads. Do you have the power to help that to happen, or would it require instructions from a minister to begin to get such information as a matter of course?

11:15

**Alastair MacNish:** We have no direct power to do that. However, I must say that, in the four years that I have been in my post, the councils have taken on board everything that we have highlighted in reports. Since the report on the road maintenance backlog, which we produced jointly with the Auditor General, each of the authorities has made a significant input. That has not fully solved the problem and there is still a long way to go, but at least the councils have taken the suggestions on board. The very fact that the issue of public announcements has been raised means that councils will not be able to avoid it because we will come back next year and say exactly the same thing if they fail to take action. Why would a council not make an announcement on the state of the road network, given that the public see the

roads and know what is in front of them? It makes eminent sense to do that, but, if a council did not go down that road, we would raise the issue formally in the findings of the best-value audit. The best-value audit centralises the issues that matter to the local population in relation to local government provision.

**Mr Welsh:** It is obvious that effective scrutiny is crucial to financial stewardship. The overview report states:

“More needs to be done to improve the timing and quality of financial information provided to elected members to enable them to monitor service performance and the overall financial position.”

Do examples of best practice exist in that regard? How can councillors be assisted to learn?

**Alastair MacNish:** The most important aspect of the remit of Audit Scotland and the Accounts Commission is to ensure probity in council areas. That is the reassurance. Unless elected members are given proper, relevant and accurate performance management information, how can they make policy decisions on strategy in their council areas? That is an issue on which dramatic improvement is required, although there are examples of best practice throughout Scotland and the Convention of Scottish Local Authorities is working closely with councils to implement best practice in all areas.

Because of best value, the overview report from the controller of audit and the Accounts Commission will change and best practice will appear more and more. That is preferable to going back into history, which is always a danger. We are already 12 months on from the year 2003-04, but we can make progress by using best practice, which is the only way in which the councils that are at the lower end of the scale of provision will be able to step up their performance. COSLA is working closely with local authorities to try to bring that out. Also, the Improvement and Development Agency should, I hope, be a significant help.

**Mr Welsh:** Will the provision of the appropriate information require investment in technology or software, or can it be achieved from within existing resources?

**Alastair MacNish:** The easy answer to every problem is that technology will solve it, but, in my 30 years of work, technology has never solved anything. However, it can be a great aid if it is in the right place and it properly reflects needs. The danger is that it can set us off on a tangent. To be serious, of course technology can help. Councils throughout Scotland have invested a lot of money in technology, although whether that has always been done wisely is another matter. However, the information exists; it is for the officers in council areas to produce it in a form that allows proper

decision making by the senior elected members in the council.

**Mrs Mulligan:** I have a brief comment to make and then will ask a couple of questions. I welcome the helpful points that Mr MacNish made about local authorities' general fund balances and reserves because I had concerns about some of the media comments on that. Having been in a former life a local councillor trying to find money for emergency circumstances, I know just how valuable it is to have money to deal with such circumstances. The criticism of the local authorities that do not have such money was quite difficult to take in the recent comments about local authorities that are responsible and which do have that support. I welcome your comments about that.

My questions are about two areas that you mentioned. One is about waste recycling. I note your comments about how local authorities might struggle to meet the 2006 target. Is that because local authorities are being asked to plan their recycling in regional groups rather than individually? Does that add to the problems that they are having in bringing about the substantial changes? I recognise that having a recycling plant next door is not the most favourable option for many people and that there can therefore be problems in establishing them, but we will leave that aside.

When you look at community planning, do you think that the ability to work in the authority across a range of areas, as well as working outside the authority with partners in the public sector, is producing value for money in the decisions that are being made, the projects that are being developed and the response that local authorities, as the lead bodies, are able to give to developing services?

**Alastair MacNish:** I will deal first with community planning. A tremendous amount of work has been put into the principles of community planning, for which local authorities have a statutory duty, as do health authorities and other partners. In practice, delivery of joined-up community planning has a long way to go. Although there are individual examples, an awful lot more work is needed. Audit Scotland is doing another study on community planning.

We are very keen to get out the first statutory performance indicators. The danger with that, however, is that one could make them so bland that the exercise would produce very little new evidence, which is a bit like the previous item that the committee discussed. The indicators need to be relevant and pertinent, so we are taking more time to try to ensure that the statutory performance indicators are more accurate.

Joined-up working on waste recycling has been successful in parts of Scotland where some of the

highest rates of recycling are found. However, we are carrying out a formal study on that and it is due to be completed—

**David Pia (Audit Scotland):** The waste management study will be completed in 2006. The community planning study will be completed at the end of 2005.

**Alastair MacNish:** Both studies are ongoing.

**Margaret Jamieson:** I should declare an interest as a non-financial director of East Ayrshire employment initiative, which is funded by a local authority and it is an external organisation.

I am aware that you have said that a report called "Following the Public Pound" will be available and you said that there is an issue in relation to control and accountability of external organisations—you made a very general statement about that. The auditors also indicated that they have concerns that action is required, but no auditor has qualified any local authority accounts. How can you balance those two views?

**Alastair MacNish:** "Following the Public Pound" highlighted a major issue about the many councils that had transferred their leisure services into trusts to avoid rates—

**Margaret Jamieson:** And compulsory competitive tendering.

**Alastair MacNish:** Yes, the desire to avoid CCT was one of the main reasons for such transfers. However, many of the transfers were done quickly because councils were frightened that the curtain would come down, so there is a question about whether the transfers were totally thought through. Our concern is about councils' ability to exercise the same degree of control over and scrutiny of the large external bodies. We asked for a report after "Following the Public Pound" but, to be honest, the report did not satisfy us because it did not answer the questions. That is why we asked for the report to be enlarged upon. It is due soon.

**Gordon Smail (Audit Scotland):** We are due to publish the national report around the end of this year. We are at the second stage of the work at the moment.

**Alastair MacNish:** I cannot say that there is a major problem, but we are uncomfortable that we do not seem to have the same handle on following the public pound through third parties—which receive large chunks of money—as we have in respect of the probity of councils. That is all that we are saying; we are not pointing the finger. The overview report mentions a couple of examples in which a surplus jumped to a deficit, but that can happen anywhere, such as in local authorities' direct services. There is some unease about the situation, so we need to consider in more detail how such trusts operate and whether the councils

have in place proper checks and balances in respect of what is, in effect, public money. The jury is still out on that, but we will come back to the committee when we have an update.

**Margaret Jamieson:** I want to take that a stage further. I accept wholly that there might be an issue about trusts that were established some years ago in order to circumvent competitive tendering, but some of the other organisations are companies limited by guarantee. As such, they are required to have independent auditors and their directors are bound by company law. Those two different sorts of organisations both receive funding from local authorities. How will you deal with that?

**Gordon Smail:** The picture is complicated because it involves examination of both the council and the recipient organisation, which might be a trust, a company or a voluntary organisation. The study is examining how council money has been applied. "Following the Public Pound" may be a bit of a misnomer, because we are interested not just in how the money is spent but in whether value for money is obtained. Our focus is on whether the monitoring arrangements on the council side ensure that public money is being used properly.

**Bill Magee (Audit Scotland):** As Margaret Jamieson rightly said, some of the organisations are separate legal entities that fall outwith the audit remit of the Accounts Commission and Audit Scotland. Such companies are subject to a separate audit regime, so we do not seek to interfere with that. The point is that substantial sums of money are going outwith the audit regime of the Accounts Commission and Audit Scotland. The guidance in "Following the Public Pound" sought to ensure that councils that enter into such relationships put in place sufficient monitoring arrangements to ensure that there is probity and value for money in the use of public funds. The issue that the report will consider is the extent to which such monitoring is happening and how effective it is.

**Margaret Jamieson:** I am comfortable with that explanation.

**George Lyon:** I have three or four questions about the report, but I will start with the section entitled "Approach to Best Value". Paragraph 23 states:

"Early findings from Best Value audits indicate that councils have been slow to develop systematic performance management arrangements."

Paragraph 24 goes on to state:

"Overall, councils' systems have a long way to go to meet the characteristics set out in Exhibit 3."

What is causing that slow progress? What action is the Accounts Commission taking to ensure that that is speeded up?

11:30

**Alastair MacNish:** It is difficult to do that when only four councils have been reported on. The trend for the next four reports is different. Dundee City Council will be included and, before the end of the year, Glasgow City Council will be included. We have a mix of councils at the moment, but that mix is not quite right. Once we get a bigger picture for the whole of Scotland, we will see that better information requires to be given to elected members in several council areas in order for them to make proper judgments.

Figures can be produced, but they must be meaningful and relevant to the decision making of senior elected members in particular. Local government audit committees can play a major scrutiny role. My fear is that in many councils the audit committee's remit is too narrow. Even if their remit was broader, the committees would still need more relevant financial and performance information at service level.

**George Lyon:** Why does that robust information not exist at the moment? What are the impediments to progress in this area?

**Alastair MacNish:** More work requires to be done by officials in each council area. The corporate management teams need to work on that and to take the requirement for information more seriously. That is coming out in the best-value audit reports. It will come out—as time goes on—that individual councils' senior management are not delivering what the elected members require.

**George Lyon:** Are those requirements not being given enough importance by the officers or by elected representatives?

**Alastair MacNish:** It is a chicken-and-egg situation. If I was an elected member, I would expect the information that comes from officers to be accurate, appropriate and relevant to the strategic decisions that were being made by me and my fellow members. My first port of call would be officers. If elected members do not ask for the information and seem comfortable giving bland answers, the onus then also falls on them. It is a twofold issue. The elected members are equally responsible for ensuring that they get proper information. If Audit Scotland produced for the Accounts Commission information that I did not think was adequate for our decision making, it would go straight back to Caroline Gardner, in her capacity as controller of audit, and to the team. There is no difference with local government. Situations can arise in which senior elected

members are looking for information that is not forthcoming.

**George Lyon:** What action has the Accounts Commission taken to ensure that such information is forthcoming?

**Alastair MacNish:** The best-value audits will spell that out as each council is reported on. Watch that space—you will see it happening. The situation will vary among councils, but this is where the best-value regime has the greatest impact: we can see the genuine improvement that is made.

It is a throwaway line to say, “We don’t have the right information.” If we can target why and where information is inadequate, that can only help. In particular, it will help with the detailed improvement plans that councils must draw up with us. Those plans include target dates against which councils’ actions will be monitored. It will not be a matter of waiting three years to do the monitoring; depending on the state of the council in question, monitoring will be conducted over three months, a year or however long is required.

**George Lyon:** The next part of your report is about compliance with audit committee principles. Are you satisfied with the rate of progress in that area? There is obviously a long way to go.

**Alastair MacNish:** No, we are not satisfied. There is a lot of work to be done. Where the audit committees are performing their duties in a way that we believe would be helpful to the council and to residents of the local authority area, that has clearly been beneficial. Sometimes, it might be just a matter of their having merely paid lip service. Two or three years ago, we said that councils must create audit committees and have proper scrutiny. I was about to say that everybody rushed away to set them up, but not everyone did. It has taken an inordinately long time for some councils to set up audit committees. Sadly, some of them still have very narrow remits, and proper scrutiny is not—

**George Lyon:** Could you explain that? I am unclear about what you mean when you say “narrow remits”.

**Alastair MacNish:** Their remits are narrow in that the information that they deal with might be purely about budgetary control and not about whether the policy that the council has laid down is the policy that is being carried out in actual delivery of service. It is clear that each council has a policy, in which they state what they will try to achieve—X, Y and Z. Audit committees have a scrutiny role, and financial information is issued monthly, so there is a requirement to determine whether councils’ strategies are being carried out. That is a significant role because the leadership of councils is challenged in that process. Members

will be aware of such situations, given their own remits: it is not necessarily comfortable for the leaders of councils to be challenged from within.

If we are to improve services in an area, that work requires to be robust and we are saying that many councils need to make a step change. Some of them are well advanced along the road and are open about the scrutiny role and the audit committee principles, but many councils have a long way to go. I hate to return to the point, but that will be highlighted as the best-value audit reports on individual councils come through.

**George Lyon:** The question that we ask in reply to that is: what action have you taken to speed up the progress of the councils that are well behind the game? Does publication of the best-value reports impact on the audit committee principles and the need to get that right? Is that the only tool that you have or are there other ways in which you try to encourage progress?

**Alastair MacNish:** That is always a difficult question. We do not have a gun at the head of local government. Local authorities recognise that we are genuinely independent and that we have no axe to grind. We do not speak on behalf of anyone other than the residents of the local authority area and we are not dictated to by anyone. If we return to a local authority the following year and things have not moved forward, that is highlighted in media coverage and in the statements that I and my colleagues make.

In the first year, we said that there had been little progress. Since then, there has been significant progress, but we still have a long way to go. I would rather encourage people along the road. If we say, “You must do this”, they will play the game, but they might not act in a way that represents best value.

**Caroline Gardner (Audit Scotland):** The new tool in the Accounts Commission’s armoury is the follow-up process to the best-value audit reports. There have been a couple of examples in which the audit report has identified that the audit committee is not fulfilling the principles that are set out in the overview. In those cases, the improvement plan that has been agreed with the local authority contains specific actions to drive up performance and to ensure that the audit committee meets the remit in the future. If that does not happen, the Accounts Commission has the power to report on that and, if necessary, to make recommendations to ministers. The improvement plan is a key part of ensuring that action takes place on the back of the shortcomings that have been identified.

**George Lyon:** If the Parliament’s Audit Committee is not happy with a report that comes before us, we summon the accountable officer.

Does the Accounts Commission have the power to do that? Also, who is the accountable officer in a council? Is it the chief executive or the finance officer?

**Alastair MacNish:** The accountable officer of a council is the chief executive, although the position under section 95 of the Local Government (Scotland) Act 1973 is that the finance officer is accountable. Along with the leadership of the council, the chief executive is a major player in self-assessment and so is in the middle of the equation. They are questioned, interviewed and challenged by the best-value audit team before a final report is produced. When we meet a council after the best-value audit is released, we meet the chief executive, the leader of the council and the leader of the opposition. We have left that open so that we can meet the full council, but we insist that all parties in the council be represented so that everyone hears what we are concerned about and what we are pleased about. It is not a closed meeting.

The system works well. It is time consuming for the Accounts Commission, but it adds tremendous value. We promised the council leaders that, regardless of whether the report is damning or is full of praise, we would meet them. We take the flak if they think that we have been unfair or over the top. Justification of our findings is part of our remit.

**George Lyon:** There is a substantial variation in the general fund balances as a percentage of net costs of services at 31 March 2004. What is the right level?

**Alastair MacNish:** The right level is the right level. I know that that is a "Yes, Minister" answer, but we are talking about the level that is right for a community. If a council has hypothecated money that cannot be spent in that year, but which it knows can be spent in the following year, it has to keep back the money. If a council thinks that 2 per cent, 3 per cent or whatever is a prudent level for emergencies, it retains that level of funds. Part of our concern is that if a council does not know what its balance will be at the end of the year, we will of course have a problem, which takes us back to performance management information.

If a council has not spent the money in the appropriate year, the money is lost. Although better neighbourhood services can spend money as quickly as they get it, they have to spend it wisely—people cannot have a pot of money thrown at them and then go out and blow it. They have to plan so that money is spent appropriately, which could take six months.

It would be absolutely crazy for any organisation to come along and say to a council, "You didn't spend that money this year. That's disgraceful."

However, we need to see that councils have at least thought things through and that they have explained their decisions to their public. No council will attract the media headline, "Council tax could have been halved" if they have explained exactly why they retained the money. It would then be up to the public to decide whether the explanation is legitimate.

**George Lyon:** And that should be part of the council's annual report.

**Alastair MacNish:** Yes. This year, we will do a lot more work in the audit on how reserves and balances are made up, and on decision making and on whether it was transparent. The 2005 overview report will contain much more information in that respect; we will glean it separately, outwith the statutory audit process.

**The Convener:** Very good.

**Robin Harper:** I realise that the remit of the report means that you are quite tightly constrained in terms of what you can and cannot report. Obviously, councils are to be congratulated on making progress on recycling. That said, the recycling figure is definitely an underestimate because it does not include community recycling. The cross-cutting review of community planning partnerships could take that into account; it could look at ways to improve things in the future.

It would be useful to have the figure for the total amount of what is called "waste"—which I call resources—that goes to landfill. There is a serious possibility that the figure is still going up. What I am trying to get at is that we cannot make a judgment of how we are doing on the bare figure alone.

**Alastair MacNish:** No, that is a fair point. We need to clarify the figures to make sense of the issue. I have a clear indication that a lot of effort is going into this area and that councils have not dismissed the target as being impossible—indeed, some councils have achieved it already and others are working hard to do so. Everywhere I go, I see a massive improvement in what councils are trying to do. Perhaps David Pia will comment on landfill.

**David Pia:** As we said, we are carrying out a performance study on waste management. We will look at the role that local authorities play in developing waste management strategies and at their performance. Part of the study will address wider issues, such as that which Robin Harper highlighted. He is correct that the performance indicator figure refers specifically to council recycling and we are aware that much more recycling than that goes on. We will be interested in examining the contribution that council waste recycling makes to the wider frame of things.

**Susan Deacon:** If I may, I will take a step back and ask about the broader context within which Scottish local authorities now work, particularly in the post-devolution era. I ask you to share with us what the local authorities may have shared with you about the impact on local government of the various measures that Parliament and the Executive have taken. Obviously, I do not expect you to comment on the policies; I am thinking of the process.

Clearly, the sheer volume of policy initiatives in recent years has been significant, as have the amount of regulation and the demands for monitoring and information even outwith statutory requirements, an example of which we heard in our earlier conversation about community care. Obviously, very different relationships now prevail at political level and at civil service level. I would be grateful if you could give us a sense of what best practice there might be on the national scale that might enable us to help our 32 local authorities to achieve best value?

11:45

**Alistair MacNish:** That sounds similar to the question that you asked last year.

**Susan Deacon:** Surely not.

**Alistair MacNish:** It is a difficult question to answer from the Accounts Commission's standpoint, but that did not stop me last year.

**Susan Deacon:** I was careful to frame my question in such a way that I was asking you to tell us what local authorities had said to you.

**Alistair MacNish:** Local authorities feel that they are the most scrutinised and inspected of all of the public sector organisations and they wonder whether that always adds value. I share that view passionately—we have to be careful. It is great for one quango to say that, but unless we ensure that we keep scrutiny at a minimum, officers will spend an enormous amount of time filling in paper, which happens at the moment. That message has come through strongly from the officers and elected members in local authorities. I take that on board. All the strategies and edicts that come from Parliament must be judged in terms of whether they will increase best value and value for money in the local area.

Local authorities have told us that, although they are always pleased to get money, it would be better if the money were more structured and were allocated in advance of the purpose for which it is allocated. That is partly why balances increase, why hypothecated money is not spent and why the public are frustrated. More co-operation when there are new initiatives would help significantly to alleviate that problem.

**Susan Deacon:** On the process of resource allocation, could you—without reference to any specific service or policy area—share with us any observations about what good practice might look like with regard to the difficult balance that must be struck between national and local needs when deciding that something is a priority, working out what resources are required to facilitate the delivery of a new policy priority and deciding when those resources can be released into the system? Hypothecation comes into that, but it is only one part of the jigsaw. Could you share with us any insights into that process, which comes up time and again in the thinking of this committee?

**Alistair MacNish:** I will make a brief comment before allowing Caroline Gardner to comment.

I believe that the issues that face every council area are unique to that area. There are many similarities between areas, but a new initiative might not necessarily be the most important issue in that community. The Scottish Executive has to take that on board.

**Caroline Gardner:** One of the things that we are considering in community planning is how partnerships can strike the balance between their critical role in delivering national priorities and ensuring that they have room to agree and work on local issues that matter to their communities. It is important that they can flex their resources in order to meet both those aims. There has to be a mechanism by which they can deal with their priorities and the actions that flow from them.

We have said several times that we are doing more work on particular areas. We have begun highly focused work on funding for initiatives that comes from the Executive. We want to find out how we can learn from experience and ensure that such money is allocated as effectively as possible and in a way that does not place unreasonable demands on councils and their partners locally. We want to focus on what the money is being used to achieve and how we can evaluate its impact. There are two levels of involvement, both of which probably matter.

**Susan Deacon:** You mentioned community planning, to which Mary Mulligan and others have already referred. How and when can we get a clear understanding of what discernible impact community planning is having on the ground? You address the issue in your overview report and I know that a further study will be done, but it strikes me that it will be quite a few years before some of that work has been completed. Can we use a lighter touch to get a sense of what is happening? A number of us have concerns—perhaps as a result of anecdotal evidence—that a great deal of process and paper are being generated. I think that you are going to tell me that I asked about that last year as well; if nothing else, I am at least

demonstrating consistency. Even if I asked about the issue last year, another year has elapsed. In a sense, that is the point. We all want the community planning process to develop improvements for people locally. How and when might we be able to reach some assessment of whether it has done so?

**Alastair MacNish:** I have a concern about the time that it will take to get solid information on community planning, the impact that it is having and the joint working that is taking place. That is why I am inclined to get one or two quick statutory performance indicators, even if they are not perfect. We could give caveats to go with them. Even to do that would not be easy, because the issue is highly complicated.

**David Pia:** I want to say a little more about the study. It will report at the end of this year, which is not very far away. It will describe what is happening with community planning by pulling together the information that is available, which will provide evidence on the amount of work and time that are being spent on it. It will also identify how community planning partnerships are saying that they will evaluate their performance, so it will give us some information about the measures and indicators that can be used.

We are doing that work because the commission acknowledges that it has a role in identifying community planning performance indicators. Although the task is complex, completing it should give us some measures that will help us to examine performance. The longer-term impact of community planning is a more complex matter.

**Susan Deacon:** Rather than getting the planning partnerships to evaluate their own impact, will you, as part of the work that you are doing, ask local people to assess the impact of community planning?

**David Pia:** We will not ask people directly about that. Our work will describe what different community planning partnerships are doing to evaluate their performance.

**Alastair MacNish:** I share Susan Deacon's concern. I do not know how we do it, but we need to make progress as quickly as possible so that we can report solidly on what is happening on the ground. A lot of effort has gone into the paperwork and the principles, but the practical implementation has some way to go. Audit Scotland, the Auditor General and the commission need to try our best to push forward that agenda because it is easy to get a bland reply on the progress that is being made. Community planning is a vital area, to which a massive amount of resources has been allocated.

**George Lyon:** I have a few small follow-up questions. As you will have noted from our

discussions with the Auditor General, we are frustrated about our ability to drill down to track how local government delivers policy initiatives from the Executive. I take it that the process of best-value audits is central to being able to get good-quality information on delivery. Once the best-value audits have been completed, that should help to inform the committee and give us reassurance. When do you expect that that information will be available throughout Scotland?

**Alastair MacNish:** Unfortunately, it will take three years for the best-value audit to be completed across all authorities. By 2006, we will have broken the back of the first set of best-value audits, but 10 to 12 authorities will still have to be audited. By that time, there will be a clear trend in the information that is required for the committee to be able to drill down. We have already noticed that the councils are learning from the first four best-value audits and are trying to set their houses in order. That is great; it is the best news that we could get. The councils are saying to themselves, "Wait a minute—we are way behind in this area." Best value is being eked out from the authorities whose audits have been completed. They are saying, "Here is the improvement plan that we have introduced, even when we thought that we were doing quite well."

We hope that that will enable the committee more easily to assess how Government initiatives are being implemented on the ground. However, that will take some time. This is an important process of information sharing. As and when we are able to update the information, I am happy to come back to reassure the committee or to give further information that would help your deliberations. The Auditor General does that consistently, but I have no difficulty with that from the point of view of the commission.

**The Convener:** You gave us a useful briefing on best value before the procedure started. As you have reported to the committee, four audits have been published—a further two are due soon and by the end of this year you will have completed a third. We would need a response from you on timing, but it may be useful for the committee to have an interim briefing on what lessons are being learned at this stage.

**Alastair MacNish:** I would not suggest that we should wait until 2007 to update the committee—I would be away then, anyway. I am happy to give the committee an interim briefing. Again, we would have to come up with general findings on the principles that are emerging, rather than specific findings on best value in individual councils, which would be a more awkward road to go down. However, I am happy to report back to the committee—that process helps me in respect of the commission reporting back to the

commissioners and I am sure that it will help my colleagues from Audit Scotland.

**The Convener:** We will negotiate a suitable timescale for that with you.

**George Lyon:** Four best-value reports have been published and two are shortly to be published. Over the past six or seven weeks, I have been reading about the Inverclyde Council report in the *Greenock Telegraph*. Why is that?

**Alastair MacNish:** I have my own ideas of how the *Greenock Telegraph* managed to get an advance copy of the controller of audit's report, which will be a public document. We are not talking about the commission's findings, which come out on Thursday—that is the part that we would answer to. My understanding is that the leak to the *Greenock Telegraph* came from within the council. As is appropriate, we will make no comment until Thursday. The commission findings will be published at one minute past midnight on Thursday.

**The Convener:** There has been quite a lot of discussion at today's meeting about council reserves and balances. As you have explained, councils have reasons for those. An example might be keeping funds available for flood prevention programmes that are planned for but have not yet been initiated. Those are sensible precautions. Bearing in mind that the committee does not consider individual councils but is interested in the general picture and therefore in trends, are you concerned that there is a trend towards less explanation being given of the reserves and balances or—even worse—a trend towards imprudence in those reserves and balances?

**Alastair MacNish:** We would take on board the balances trend each year in the statutory audit of the council area. If we thought that there had been imprudence, that would be shown in the auditor's statutory report. If we had concerns about the level of balances across the Scottish authorities, we would say so. However, we are not saying that at the moment; we are saying that things must be transparent and clear and that policies must be laid down. As a result of the 2004 overview report, we are going into far greater depth in the 2005 overview report so that there is much more specific information about each council area. I assure members that, if we have concerns, they will be identified and made clear in the commission's report. At the moment, all we are saying is that local authorities require to be prudent and transparent in what they let the public in their areas see.

**The Convener:** I thank Alastair MacNish and his team for addressing the committee and for giving members a briefing, which I am sure has been

helpful. We will be in touch in due course about a briefing later in the year on the best-value audits.

That concludes consideration of agenda item 5. We will now consider in private agenda item 6, which is on the Auditor General for Scotland's section 22 reports.

12:01

*Meeting continued in private until 12:30.*



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