

AUDIT COMMITTEE

Tuesday 27 June 2006

Session 2

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CONTENTS

Tuesday 27 June 2006

	Col.
ITEMS IN PRIVATE	1679
“COMMUNITY PLANNING: AN INITIAL REVIEW”	1680
“PUBLIC SECTOR PENSION SCHEMES IN SCOTLAND”	1691
AUDIT SCOTLAND (ANNUAL REPORT 2005-06)	1700
AUDIT SCOTLAND (WORK PROGRAMME)	1704
SCOTTISH EXECUTIVE (PROGRESS REPORT ON COMMITTEE’S RECOMMENDATIONS)	1708

AUDIT COMMITTEE

11th Meeting 2006, Session 2

CONVENER

*Mr Brian Monteith (Mid Scotland and Fife) (Ind)

DEPUTY CONVENER

*Mr Andrew Welsh (Angus) (SNP)

COMMITTEE MEMBERS

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

*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

*Mrs Mary Mulligan (Linlithgow) (Lab)

*Eleanor Scott (Highlands and Islands) (Green)

*Margaret Smith (Edinburgh West) (LD)

COMMITTEE SUBSTITUTES

Chris Ballance (South of Scotland) (Green)

Mr David Davidson (North East Scotland) (Con)

Marlyn Glen (North East Scotland) (Lab)

Mr John Swinney (North Tayside) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Miranda Alcock (Audit Scotland)

Mr Robert Black (Auditor General for Scotland)

Caroline Gardner (Audit Scotland)

Diane McGiffen (Audit Scotland)

David Pia (Audit Scotland)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Clare O'Neill

LOCATION

Committee Room 5

Scottish Parliament

Audit Committee

Tuesday 27 June 2006

[THE CONVENER *opened the meeting at 09:49*]

Items in Private

The Convener (Mr Brian Monteith): I welcome everyone to the 11th meeting of the Audit Committee in 2006. We have quite a busy programme this morning, but I ask members to bear in mind the fact that I aim to finish the formal proceedings by 12 o'clock.

I welcome to the meeting the Auditor General for Scotland and members of Audit Scotland, the press and the public. I ask everyone to switch off their mobile phones and pagers to ensure that they do not interfere with our public address system. I have received apologies from Mary Mulligan, who is unable to attend until approximately 10.30 am.

Item 1 is to seek the committee's agreement to take in private items 7 and 8. Item 7 is to consider our approach to the Auditor General's reports "Community planning: an initial review" and "Public sector pension schemes in Scotland", and item 8 is to consider a draft report on Inverness College. Do members agree to take those items in private?

Members *indicated agreement.*

"Community planning: an initial review"

09:50

The Convener: Item 2 is a briefing from Caroline Gardner on "Community planning: an initial review".

Caroline Gardner (Audit Scotland): This joint report by the Auditor General for Scotland and the Accounts Commission was published on 16 June. Community planning is about public sector organisations working together and with local communities and the business and voluntary sectors to identify and solve local problems, improve services and share resources.

The Local Government in Scotland Act 2003, which provides a statutory basis for community planning, requires local authorities to initiate and facilitate community planning and to secure the participation of health boards, the police and other public sector bodies. The guidance accompanying the act requires Scottish ministers to promote community planning and ensure that the Executive and agencies are joined up in developing policies and performance frameworks.

Radical improvements in services and community well-being will be achieved only if organisations work together effectively. Scotland has led the way in developing legislation for community planning, and this report is the first major review since the 2003 act was enacted. We hope that it will inform the current debate on public service reform. I will briefly outline the report's main findings and then answer questions.

First, community planning clearly can improve services and benefit local communities. Joint working is well established in Scotland and it already covers many of our most important public services. In some areas that we examined, we found that community planning is adding value to existing joint working by building a strategic framework for the area based on a shared understanding of local needs and by building trust and co-operation between partners. However, we also found that the structural differences between partners can limit their flexibility to respond to local needs and can increase the administrative burden on community planning partnerships. Those differences centre on accountability regimes and, in particular, operational boundaries—for example, only five local authorities have coterminous boundaries with most of their partners, and arrangements in most areas of Scotland are more complex than that. We must also bear in mind the different financial regimes and performance reporting arrangements for partners.

In addition to those local differences, the wide range of national policy initiatives and related funding streams make it difficult for community planning partnerships to achieve their full potential. Although the Executive has an ambitious policy portfolio aimed at improving public services in Scotland, the wide range of those policy initiatives creates additional work for partnerships. For example, one council estimates in the report that it submits 29 separate plans to the Executive, many of which require input from one or more partners in the local area.

At the same time, fragmented funding support for those policies also increases administrative burdens. In the report, we estimate that, over the past two years, the Executive has provided through 47 different funding streams about £1.25 billion that was intended to be spent through partnership working rather than by councils and individual partners. Each funding stream usually has its own application process and monitoring and reporting arrangements.

It is now time for local community planning partners to move on from establishing community planning processes and structures to demonstrating the impact of that work on services and on the well-being of local communities. All local authorities have now established community planning partnerships and all statutory partners are engaged at a senior level. There is no single model of effective partnership working—after all, arrangements must reflect local circumstances and priorities—but community planning arrangements overall tend to be complex and there is scope, both nationally and locally, to rationalise partnership structures. There was not much evidence of people taking the opportunity that is afforded by community planning to strip away pre-existing partnership structures, but we think that it is time to do that.

Partnerships are generally putting considerable effort into improving the involvement of communities and service users in decision making. Again, however, we think that there is scope for more co-ordination between partners, so that councils and their partners in health and the police, for example, do that in a more joined-up way rather than each taking their own approach.

Community planning partnerships are improving their performance management arrangements, but progress has been slow. Community planning is always going to be a long-term process and it is probably too soon to be able to point to hard evidence of real changes in outcomes for communities. However, we think that it is now time for partnerships to focus their efforts on demonstrating what is changing for local people and what is better because of the community planning process.

I will stop there, but my colleagues and I will do our best to answer any questions, convener.

The Convener: Thank you very much. The report is very interesting. I note that it is framed as an initial review, so clearly there is more work to be done.

I will help the committee by asking the first question. You said that community planning can add value to existing joint working. Are you in a position to say at this stage that the benefits that might come from community planning will clearly outweigh the administrative burdens to which you referred?

Caroline Gardner: There is the potential for that to be the case—in some parts of Scotland it is already starting to be the case—not least by getting an overarching vision of what all the partners are working towards, instead of having a series of separate visions for particular types of services. Benefits can also come from building a culture of trust and working together, which we see increasingly in some parts of the country.

Having said that, it is much more likely that the benefits will outweigh the costs if people take the opportunity at the same time to strip away things that have been superseded by community planning and ensure that all their efforts are directed towards achieving the vision that the partnership has set itself.

The Convener: The comments about rationalisation and stripping away, particularly with regard to pre-existing partnership structures, are important. However, I am concerned about where the leadership will come from to achieve that, because there are 32 local authorities, along with all the health and police boards and others, and, as you pointed out, they overlap. Leadership is important if rationalisation is to happen. Is there any indication of where leadership is coming from that might help that process?

Caroline Gardner: That is a good question. Formally, the councils have the responsibility under the Local Government in Scotland Act 2003 to lead the process of community planning. We identify in the report the particular issue that a number of national organisations, such as the enterprise network, are being pulled in two directions: nationally, towards the Executive and the national organisations, and locally, towards the 32 councils with which they work. Those different accountability arrangements can make it hard for people to decide whether local or national priorities take precedence. Similarly, a number of health bodies told us that they are committed to engaging in community planning at a local level, but they are clearly held to account at the centre for targets on waiting times and a range of other national priorities. It is that balancing of national

and local that we think is difficult to achieve in the current framework, with the different organisational boundaries, funding streams and performance frameworks that are in place.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I will pick up on that point. I am aware locally of some of the tensions around community planning. You mentioned Scottish Enterprise in particular being pulled at a local level and a national level. That organisation must split itself among 32 councils, as do the police and colleagues in health. Each council has different issues, problems, opportunities and challenges. That impacts on the larger organisations, which have their own priorities. Did you get any feedback to the effect that they feel they are being pulled in too many directions and that, because they are having to spend time on community planning as well as on setting their own priorities, their ability to deliver services is being affected?

10:00

Caroline Gardner: We did. That is an issue not just for the national organisations but for organisations such as Greater Glasgow and Clyde NHS Board, which I think is involved in eight community planning partnerships. There is obviously an overhead there. That is one reason why we think it is important for partnerships to have a highly explicit performance management framework, through which agreement can be reached on which national and local priorities will be focused on, how progress will be measured and what contribution each of the partners will make. The tensions need to be made explicit so that a way can be found of managing them. They will not go away—people have dual accountabilities—but at least the framework would set out clearly what people agreed to do and would provide a basis on which the various partners could hold each other to account on the progress that had been made. Miranda Alcock or David Pia might have something to add.

Miranda Alcock (Audit Scotland): If value is to be added through community planning, the partnerships must focus on working together. It is undoubtedly the case that tension is created for those larger organisations that must balance the needs of the various community planning partnerships that they encompass. There are ways round that, but they take time, negotiation and commitment to the area concerned.

David Pia (Audit Scotland): We suggest in the report that local authorities and partner organisations should provide annual statements that show the link between the community plans with which they are engaged and their corporate plans. In that way, they could demonstrate how things fit together.

Margaret Jamieson: Did you obtain any information on the amount of time that larger organisations are having to spend on the various local authority community plans?

Caroline Gardner: We did some costing of the direct costs that are being incurred as a result of community planning, but it is difficult to capture the amount of time that organisations spend on something that is not separate from their mainstream business. We decided that any estimate that we could make would not be robust enough to be worth reporting.

Margaret Jamieson: But that issue was raised with you.

Caroline Gardner: Yes.

Mr Andrew Welsh (Angus) (SNP): You seem to have described a jungle of organisational complexity. The problem is how drive and direction can come out of that massive complexity. You say that the Scottish Executive has too many priorities, that there is a lack of co-ordination between national and local priorities, that funding is complex and that there is a lack of agreed goals and priorities. Your recommendations are clear—there should be a limited number of priorities, the integration of national policy initiatives should be improved and funding streams should be rationalised. However, delivery is the problem. How easy will those goals be to achieve? The situation is complex and involves conflicting interests. You have identified that community plans are one way of addressing the complexity. Will it be possible to create drive and direction from such complexity?

Caroline Gardner: To be fair, I am not sure that we are telling people much that is not already known. We are providing evidence and quantification of a situation of which people are aware. It is clear that there is a link with the Executive's debate on public service reform.

There are probably two levels of answer to your question. Partnerships can take some measures fairly readily. Some of the better performing partnerships are already seeking to clarify which national and local objectives they intend to focus on and they are doing what they can to rationalise their structures by examining how one plan might serve the needs of two or more Executive policy areas. Such streamlining is under way in some parts of Scotland.

Other action will be more difficult to take. We all know about the tensions and challenges that exist around the reorganisation of public bodies. There is a risk that reorganisation could introduce more turbulence than it resolves. That is where the wider debate on public service reform comes in. However, there are measures that organisations can take to lighten the burden in the meantime.

Mr Welsh: I get the impression that, although there is good will to get things done at all levels, there is a lack of focus on whether national or local goals take priority. Who takes the initiative when it comes to providing that central focus?

Caroline Gardner: In the best partnerships, people have come to a shared understanding of the most important needs in their area. Such an understanding reflects the economic circumstances and demography of the population and the history that has led to the current situation, which enables people to say, "We will concentrate on these five areas. Other areas must take a back seat until we can demonstrate progress." In other areas, partnerships have not developed to such a stage and have tried to address 20 or 30 priorities, which is not an effective way of working. That is why we think that there are things that local partnerships can do even when bigger questions remain to be addressed nationally.

Mr Welsh: Are you saying that before partnerships expand they should do less but do it better, rather than have an expanded programme and take a scatter-gun approach? Who should provide direction and take decisions about the focus of work?

Caroline Gardner: Good partnerships have managed to do that by securing good, shared information about what is happening in their area. For example, partnerships can gather information about the demographic challenges that are presented by an increasingly elderly population and a fall in the number of young people, or about pockets of deprivation or ill health in their area. Such information can be used to develop a shared understanding between all partners—the council, the health board, the police and fire services and the enterprise network—of what must be done to address the problems. There must be agreement if many agencies are to sign up to the work. We found that the information base is often a good starting point for developing that shared understanding.

Mr Welsh: There is local knowledge of problems and needs. However, £1.25 billion is provided centrally, which is an awful lot of money. What is the mechanism whereby central funding can be linked with the local knowledge that can produce results?

Caroline Gardner: The partnership must find a way of understanding local needs and matching its agenda to the national priorities and the national funding that is available. Organisations must also find ways of using their mainstream funding more effectively, which is a challenge. Each organisation has a significant budget that is committed to services, staff and so on, so a key to success is to find ways of ensuring that staff activity contributes towards the partnership's

goals. If people focus only on the new money that is available or the money that is attached to a particular initiative they are unlikely to make the cultural shift to an attitude in which they say, "How can we work together to meet our area's needs?"

Mr Welsh: I see that local action is the end point, but do we lack a mechanism at central Government level that could provide drive and direction?

Caroline Gardner: During the study, people often said that community planning is about not just local initiatives but the Executive. A finding of our report is that the Executive probably could do more to ensure that its policy development is more joined up and gives more consideration to the impact on the 32 community planning partnerships in Scotland. There are moves in that direction, but work on the number of plans, funding streams and accountability regimes, for example, could be developed further to make it easier to join up policy locally.

Mr Welsh: The Executive should get its act together.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I welcome the report. Caroline Gardner is right to say that it tells us much that we already know, but sometimes it is useful for such matters to be set out for us to see. Over the years, the Audit Committee has expressed concern to Audit Scotland and the Accounts Commission that the vision for community planning is not necessarily being translated into practice in many parts of Scotland. The report identifies significant deficiencies.

I make an observation—I will give the deputy auditor general for Scotland the opportunity to say whether she agrees with me. It strikes me that much of the practice that is described in the report is far removed from the original aspirations for community planning. That is not due to a deliberate desire on the part of any individual or organisation to depart from the original vision, but the reality is that in many instances what was meant to be a living and breathing process that involved not just agencies working together but communities having a say in shaping the future has become locked into an overengineered and dysfunctional process in which people spend a hugely disproportionate amount of time preparing paperwork and plans instead of getting on with the job of service delivery. A lot of professionals are triumphing in joint working and improvement despite, rather than because of, much of that machinery.

You may or may not choose to comment on that observation. I feel that we must address serious issues. Not for the first time, we are dealing with a failure of policy implementation or, if not with a

failure, how policy translates into practice. The policy is not in any sense flawed. I see nothing that would make us question the original aims, aspirations and ambitions of community planning.

That is the context for my questions. My main question is: what is the Scottish Executive's role? In a practical sense, ownership lies at local level and much can be done locally. However, by definition, surely the Scottish Executive must take the lead role in driving cultural change, which concerns its work with local agencies and how it changes its own practice. As you said—the report provides evidence on it—part of the problem is the number of plans, reports and processes that the Executive generates. The Executive could lead from the front by changing its own practice. What is the Executive's role, particularly in leading cultural change?

Caroline Gardner: You are right—nothing in the report challenges the vision and the aspirations for community planning. In the process of finalising the report, we said that if community planning did not exist, it would have to be invented. Some problems in communities around Scotland cannot be tackled by organisations working on their own.

I know that the Executive aspires to tidy how it engages with community planning partnerships on planning, funding, monitoring and accountability arrangements. We saw that recently in the Minister for Finance and Public Service Reform's statement about aspirations to move forward public service reform.

The Executive faces a tension in balancing the mechanisms that are at its disposal for showing progress with some of the important policy initiatives that are under way and giving people flexibility locally to find innovative solutions for local circumstances. We were surprised at this point in the development of the community planning process to find few examples of people genuinely pooling budgets and staff and of people considering the roles that professionals play in delivering services locally.

In many ways, that links to some of the questions that we considered in relation to the leadership development report, such as how we develop leaders of Scottish public services rather than leaders of local government, the health service or the civil service. It is important to bring people together so that there is a shared goal not just for the community plan but for what public services are intended to achieve. That will not be achieved quickly, but it needs investment from now to develop it.

Susan Deacon: You pre-empted my next question, which is about links with other work that has been done on leadership initiatives. That was screaming out, and I am glad that you mentioned it.

I return to the question of the Executive changing its practices and, in so doing, driving cultural change. You mentioned various stated and restated aspirations on the Executive's part to make change. The Minister for Finance and Public Service Reform repeated them last week. In your work, did you identify practical changes to the Executive's leadership role in community planning? Is the Executive moving towards a more people-based approach, lightening its touch in the demands that it places on public services and moving away from top-down guidance and requests for reports and plans, or is it continuing with its previous approach? If the latter applies, how can that be changed?

Caroline Gardner: We have seen attempts to move away from the pattern of the past. People have experimented with measures such as outcome agreements and considered whether, in some areas of Scotland, services such as those for children can be brought more closely together. However, that is some way from becoming wholesale change. I will sound as if I am ducking the question, but you would probably do better to direct to the Executive than to us your question about what needs to happen to make that central to how the Executive does its business.

10:15

Susan Deacon: Thank you. I appreciate those comments.

The final issue that I wish to raise is public involvement, or community engagement, to use the correct term in this context. I am aware of the references in the report to that and to the national standards for community engagement, which are produced by Communities Scotland. Could you elaborate on that, not least because, in the context of what we read in the rest of the report, there is a real concern that there are yet more documents and words about community involvement, yet the culture and practice at a local level are such that people feel as disconnected and disenfranchised as they were before? Can you tell us anything further in that regard to reassure us that community planning is not just about agencies working together, but is also about involving local people and communities?

Caroline Gardner: I will ask Miranda Alcock or David Pia to speak about this in a moment. We feel that councils and their partners have been overly tied up in the processes and structures of community planning and have not reached the stage of actually changing the way in which people think about what they are doing. There has been a lot of focus on surveys of local people's views about priorities and service quality. However, there is not yet a sense of wanting to open things up and engage people in what needs to happen.

Miranda Alcock: The report contains some interesting, innovative examples of different approaches to involving people at quite a high level. In Stirling, for example, young people have done a lot of work on giving out the information that they need and on establishing how to proceed with the money and information that are available. There are scattered examples of interesting and innovative work, but it is early days. The study is more of an overview of community planning rather than just community engagement.

You will note from our future study programme, which the committee is considering later on the agenda, that we propose to undertake a study focusing on community engagement. That has come out of some of the current work. We did not consider community engagement in detail, but we did pick up on it. It is a fundamental part of community planning. A lot of effort is expended in that area, and some of the work that gets done is interesting and innovative. However, the approach needs to be more joined up and it needs to be applied across the board. It is early days, but there are some big commitments, with some interesting, innovative initiatives.

David Pia: One thing that helps explain the rather uneven approach to community engagement is the finding that we have reported about the involvement of members in community planning and about their whole approach to engaging communities and different groups of people. We have reported on the uneven commitment among members to community planning. It varies considerably, from a very strong commitment in some places to relatively little commitment in others. There is even opposition to it in some areas.

Eleanor Scott (Highlands and Islands) (Green): I have a quick, Highland-specific question. You have spoken about some of the difficulties with agencies not working in coterminous areas, with overlaps and so on. There was recently a fairly abrupt reorganisation of the local enterprise companies under Highlands and Islands Enterprise, but none of the boundaries is any more coterminous than before—arguably, they are less so.

Highland Council is anticipating the change in the voting system next year, with the move to multimember wards. There is talk of changing the council's area committee structure. When organisations and public bodies are reviewing their own structures, is it still the culture that they consider only their own structure? Is there any change towards bodies considering how their structures mesh with those of other organisations? That does not seem to me to be the case. I do not know whether the situation in the Highlands is unique or whether other councils will wish to

change their structures after the new voting system comes in.

Caroline Gardner: It is a bit of both. I will ask Miranda Alcock to give you some more detail on that point in a minute. A number of organisations still start with their own priorities and history when they consider future reorganisation. On the other hand, a number of police forces—Lothian and Borders police being a good example—have altered their command structures to focus on not just council areas but the neighbourhood community planning structures within them.

Miranda Alcock: The police have been especially good at organising their command structures to reflect local community planning structures. Increasingly, fire and rescue authorities are also doing that.

It comes down partly to a commitment to the area. If all the public organisations in an area are committed to the area, they will organise accordingly. Commitment must come not only from the local council but from all the public services, as Caroline Gardner has suggested. If that commitment exists, people will say, "Okay, we'll organise so that it's easier for everybody to work together." Leadership is important, but it is commitment to the local area that really moves things along.

The Convener: I thank Caroline Gardner, Miranda Alcock and David Pia for providing us with that briefing. You have given the committee food for thought, and we will discuss the issues when we move into private session later in the meeting.

“Public sector pension schemes in Scotland”

10:21

The Convener: For item 3, we will receive a briefing from the Auditor General for Scotland on the report “Public sector pension schemes in Scotland”.

Mr Robert Black (Auditor General for Scotland): As I am sure committee members are well aware, there are six main public sector pension schemes in Scotland. As I say in the report, those schemes will provide retirement benefits for about 950,000 people. In other words, nearly one in five people in Scotland has some entitlement to a public sector pension. The report sets out the current funding position for public sector pension schemes in Scotland. It draws on information that is publicly available but has never before been pulled together into one public document.

Recent changes to the accounting requirements for pensions have resulted in clearer information about the likely future costs of public sector pensions. By setting out in one report the current assessment of the potential future cost of pensions to the taxpayer, I hope to provide a useful contribution both to a general understanding of the issues and to the debate on how best to meet future public sector pension obligations.

Before I outline the content of the report, I want to stress that pension provision is a long-term exercise. There will be short-term gains and reversals, and funds are managed with that in mind. The report provides a snapshot of a situation that changes with financial markets.

There are six main schemes in Scotland. All are what are called “defined benefit schemes”, in which members’ pensions depend on the salaries that they earn towards the end of their employment and on the number of years in which they have contributed to their scheme.

The local government pension scheme pre-funds its future liabilities by investing contributions from employers and employees. That funded scheme is administered by 11 separate administering authorities. For other schemes—covering national health service workers, teachers, police, firefighters and civil servants—the contributions made by employers and employees are not invested in the same way. Those schemes are often called pay-as-you-go schemes. They rely on in-year contributions and Government grants to meet pension payments if those payments exceed contributions.

Five schemes are administered in Scotland and the combined funding shortfall and unfunded liabilities of those schemes may be as high as £43 billion. The sixth scheme is the civil service scheme, which is administered at United Kingdom level. If we include an estimate of the unfunded liability for civil servants who work in Scotland, the total for all six schemes could be up to £53 billion.

The expectation that people will live longer is increasing the value of pension liabilities, because pensions will have to be paid over a longer time. The new accounting rules that I mentioned a moment ago are also having an effect, as the discount rates for valuing liabilities are reduced. To comply with the accounting rules for financial reporting standard 17, the discount rate for valuing the liabilities of funded schemes was reduced from 3.5 per cent to 2.4 per cent in real terms on 31 March 2005. That reflected lower investment returns of quality bonds at that date and it has the effect of increasing the value of pension liabilities. For the local government pension scheme, the change to the discount rate means that the average level of funding of the scheme fell from 89 per cent at 31 March 2004 to about 76 per cent at 31 March 2005. That is despite an average growth in investment assets of 14 per cent over the same period.

As the same discount rate does not apply to all the main public sector pension schemes in Scotland, they cannot be compared directly. Also, the liabilities that are shown in the accounts of the unfunded NHS superannuation scheme, the Scottish teachers superannuation scheme and the principal civil service pension scheme are valued at a higher net discount rate, which means that—relative to the liabilities of the local authority scheme—they are undervalued. The unfunded police pension scheme and the firefighters pension scheme are also valued at the local authority rate.

To keep employer contribution rates affordable, funded public sector pension schemes invest mainly in stock market equities that give a higher return than investments in bonds. However, when equity investment is compared with other forms of investment, it is found to be more risky and vulnerable to sharp drops in value. Contribution rates are not set with reference to accounting valuations; they are recommended following funding valuations by the actuaries that take account of the anticipated extra return from equities and are reassessed at each full valuation in response to actual fund performance. If some of those issues may appear to be technical, it is because they most certainly are.

In conclusion, I will repeat the remark that I made a few moments ago. The funding position of the pension schemes that are set out in the report

represents a snapshot in time. The position will move with the financial markets. For example, market changes since 31 March 2005 initially increased the value of liabilities, but compensating rises in equities offset some of that. However, since March 2005, it is probable that net liabilities will have increased over the piece.

Whatever we see in the short-term market changes, when we stand back from the technical details, the position seems clear: liabilities in the unfunded public sector pension schemes in Scotland are increasing. Almost certainly, unless the benefits that are provided by the schemes are adjusted, employee and employer contributions will need to increase. If that happens, it is likely that extra demands will have to be made on public spending to meet costs.

As always, I am happy to attempt to answer any questions. My colleagues will help me to do that.

The Convener: Thank you.

Margaret Smith (Edinburgh West) (LD): I will attempt to ask a layperson's question—basically, it is what the person on the street would ask. Is the position sustainable?

Robert Black: Yes. It is important to emphasise that the liabilities will not all crystallise in the short term. We are talking about a period of many decades ahead. For example, if someone aged 16 were to join the public sector today, work until they were 65 and live into their 90s, we would be talking about eight decades of contributions and benefits. Certainly, there is not an immediate crisis in the scheme. However, the report confirms that financial pressures are building up across Scotland as a whole. Everyone needs to be aware of them when they are planning future public spending and the management of the pension arrangements.

Margaret Smith: Over a period of years, the private sector has experienced the same sort of pressures that the public sector has experienced. Many companies have shifted from final salary pension schemes to other forms of schemes, certainly for new entrants. Is that route necessary for private sector companies to take in the short term?

Robert Black: I prefer not to comment on policy aspects—first, and most important, because it is not my role to do so and, secondly, because this is a highly specialised area. There is no doubt that some of the changes to final salary schemes that we are seeing in the private sector and changes to the terms and conditions of schemes reflect pressures that are similar to those that we see in the public sector.

Margaret Smith: At the risk of asking you another question that you cannot answer—not

because of your abilities but because of mine—one of the things that you have highlighted is the way in which the money in the local government pension scheme is invested in equities rather than in other forms of investment. Is there an argument for considering what local authorities do with their money?

10:30

Mr Black: There are different schools of thought on that. Some people, particularly the economists, argue that there should not be any equity investment and that everything should be in long-dated bonds that match the liabilities to the risks. That inoculates a fund against the risk because it is getting a set return over a long period. Equally, there are counterarguments in investment planning that equity investment is a relevant part of a balanced portfolio for long-term pension provision. Under that approach, better growth is sought in the early years of the employee's career through investment in equities. If one were planning for the pension requirements of someone who is joining a pension scheme now, one could encourage their funds to be invested in equities in the expectation that they would get a higher rate of return. As that person reaches the more mature years, the investment is shifted towards bonds and so on, where there is a secure return.

In practice, the idea of a wholly bond approach falls down because the volume of bonds required to match the liabilities is not available in the market. The recent abnormally low level of bond yields is in part due to funds switching to bonds as a result of the private sector exposure in equities, which in turn is pushing up prices and driving down the yields; in other words, funds need to pay more for the bond and therefore the real return that they are getting from that investment is falling. Funds can be pushed into a vicious cycle if that extreme position is taken.

In terms of what we might call prudence, the question is how closely the funds work to the matching principle for the liabilities close to maturity. A number of the funds, where a high reliance is placed on equities, are exposed to greater risk from market volatility, but a switch to bonds in the current market would not appear to be prudent. There is no simple answer to those questions, which is really why the administrative authorities need to get high-quality, professional advice.

Margaret Jamieson: My questions are mainly to do with the local government pension scheme and the lack of synchronisation of the scheme with workforce planning to anticipate when there will be greater demands on the scheme. There is a view around that the difficulties experienced in the local government pension scheme might be linked to

employers in local authorities having taken a rather long holiday from making contributions. What are your views on that?

Mr Black: If I understand it correctly, that is a two-part question. One question relates to whether greater account should be taken in workforce planning of the pension implications; the second question relates to how the local authorities have been managed in recent years. A couple of diagrams in the report highlight the difficulty of predicting what the pension liabilities will be in future. Exhibit 8 on page 13 shows an expanding range of possible funding levels, depending on a range of assumptions. It would therefore be unreasonable to have accurate figures about that going into the future. However, there is no doubt that there is one particular, important consequence, which is that if there is significant expansion and recruitment at a point in time, many years ahead there will be an issue. We are seeing an example of that in the fire pension scheme. Those of us of a certain age will recall a significant recruitment exercise in the fire service in the early to mid-1970s; those people are now reaching retirement, which is why the report indicates a great deal of pressure in that area.

On the second part of your question, in the early to mid-1990s the Inland Revenue required pension funds to take pension holidays. The requirement was introduced because there were concerns that companies, particularly in the private sector, were building up reserves that were not required. To prevent that from happening, the actuarial surpluses in funds were to be restricted to 5 per cent and any excess was to be disclosed and reduced over five years. Therefore, in the 1990s there was pressure from the Inland Revenue for pension funds—primarily in the private sector but also in the public sector—to reduce their surpluses.

It is certainly the case that pension funds took holidays. From my background in local government, I recall that the Scottish pension authorities tended to take a more conservative approach to pension holidays than did some of the English schemes. We know that the funding position of the English pension funds is generally poorer than that of Scottish funds. More recently, there has been a change in policy to allow authorities to retain surpluses against future market movements, so it has been recognised that the circumstances have changed.

The issues are complex—I am sorry about that—but I hope that my comments have helped the committee's understanding.

Margaret Jamieson: Scottish Enterprise is consulting on the transfer of Careers Scotland staff. What impact would a transfer have on the agency's budget, given the other budgetary issues

that it is dealing with? The liabilities will have to be met, wherever the staff go.

Mr Black: My understanding is that Scottish Enterprise has a separate pension fund and that when staff transfer into or out of local government, for example, allowances are made. Unfortunately, I cannot help you with a detailed answer on the consequences of a hypothetical move of staff from the Scottish Enterprise payroll into local government.

Margaret Jamieson: Is it correct to say that it would not be possible to move the debt with the employees, so the pension scheme's current liabilities would have to be met in full?

Mr Black: I am sorry, but I will have to go away and find out the answer to your question.

Margaret Jamieson: You can come back to me.

Susan Deacon: I want to ask an overarching question about the interface between the Scottish and UK Governments in the context of discussions about pensions and powers to make decisions and legislate, if appropriate. That is one of the most complicated matters for MSPs, whether we are considering overall policy, as we are doing today, or the case of a constituent who is a member of the local government pension scheme and wants to know whether their MSP or MP is best equipped to address their concerns. Can you provide clarification on where the responsibilities lie? How might we improve dialogue to ensure that the appropriate decisions are taken?

Mr Black: Again, I must apologise. The answer is not straightforward, although the question is entirely reasonable. Funding for schemes other than the local authority scheme fall under annually managed expenditure, which is the responsibility of the Treasury and is outwith the Scottish block and the Barnett formula. The liabilities are at UK level because the contributions are taken at UK level and pension payments are made from the centre. In the past, when contributions exceeded costs, they went to the Treasury and were applied against other expenditure. It is very much a case of macroeconomic management at Treasury level.

To the best of my knowledge, there is no intention to alter any of those arrangements. The arrangements for the funding of pensions are backed up by statute, so the entitlement of employees to a pension is set in statute. The Treasury is obliged to ensure that funds are in place to pay pensions when they are due. In that respect, there is growing pressure but no immediate crisis.

The framework for public sector pensions is set at UK level, and that includes the local authority scheme. However, it is acknowledged that the Scottish position could diverge if unique

differences warranted a separate Scottish approach. That is why there are separate negotiations with employers and unions in Scotland. However, a very strong case would have to be made for divergence from the UK position. For example, it would probably be difficult to argue for different fixed contribution rates from employees.

Theoretically, the local authority scheme is more flexible, as it is a funded scheme administered in Scotland, but the contribution rates for employees are fixed and the entitlement to a pension is laid out in terms of a final salary pension scheme.

Susan Deacon: What machinery is in place to facilitate discussion between the Scottish Executive and the UK Government—at ministerial or civil servant level—to ensure that the interface between Scotland and the UK is managed effectively?

Mr Black: I am sorry, but I cannot answer that question. Our report did not consider that relationship.

Mr Welsh: The pensions issue is extremely complex and we are looking at it through the fog of war, trying to understand it. To laypeople, it is about as clear as global warming or holes in the ozone layer, or as uncomplicated as quantum mechanics. Could you give us some perspective—free of the financial gobbledegook about markets and so on—on the gap of £43 billion to £53 billion to be filled? That figure could go up a bit or down a bit, but should we be panicking?

Mr Black: It is important to use language properly. The word “shortfall” can be applied to the overhang that is evident in the local authority scheme. Figures to 31 March 2005 show an unfunded overhang. The local authority scheme is designed to take contributions from employers and employees and invest them in such a way as to cover liabilities. Technically speaking, there is a shortfall in that scheme.

For the other five schemes, I would encourage you to think in terms of unfunded liabilities rather than a shortfall. In those schemes, the Treasury is underpinning people’s entitlement to a pension. For the first time, this report puts a figure on the total obligations—for the unfunded element in the local authority scheme and for the pension liabilities in the other schemes. The snapshot in the report shows that the figure is £53 billion. However, that liability will crystallise only as people retire over the coming decades. The funds will also benefit from contributions from new employees coming into schemes.

The overall situation is that, if we stand back from the technicalities, we can see ample evidence that the funding pressures are increasing in the six pension schemes. In the case of the

local government pension scheme, evidence comes from the unfunded overhang. In the case of the other unfunded schemes, we think that the liabilities are likely to carry on increasing.

10:45

Mr Welsh: Is it fair to say that we have a long-term problem but that pressures are increasing in the short term?

Mr Black: There are no immediate short-term pressures. We have a situation in which there needs to be an awareness of the build-up of pressures over a number of years.

Mr Welsh: The usual solution is to increase the contributions of employers and employees and to require later retirement by making everyone work longer. Would such a solution be satisfactory in meeting the problem?

Mr Black: There is a remorseless logic to this, as only a number of things can happen: the retirement age will need to increase to reflect greater longevity and the fact that people will draw pensions for a longer period; employee and employer contribution rates will need to increase; or the benefits that people enjoy will need to be adjusted. Only one or more of those three measures can happen as we go forward, but some of the measures have greater implications for public sector spending than others.

Mr Welsh: Given that the Scottish block that comes from London may increase or decrease, how does that affect the situation?

Mr Black: As I may have remarked earlier, the financing of the unfunded schemes falls under annually managed expenditure, which is managed by the Treasury and is outwith the Scottish block and the Barnett formula. The local government pension scheme—which is a very large scheme indeed—is funded. There are possible implications for local taxation levels because of the element of that scheme that is not covered by investments.

Mr Welsh: Will that need to be covered by council tax?

Mr Black: That is one possible outcome.

The Convener: You mentioned the need to use language carefully, but I notice that you used the word “underpinning” rather than “underwriting”. I am not sure whether there is a clear difference between those terms. You also mentioned the overhang in the local government pension scheme. Given that the liability in that scheme will need to be funded either by council tax payers or by the Scottish Executive and given that the liability in the other schemes will need to be funded through, or underpinned by, the Treasury—which will still be a call on public

funds—the public fund liability, wherever it might lie, is clearly of interest. Does the evidence tell us that the funded approach—that is, investing in equities or other portfolios—is more advantageous than the pay-as-you-go approach in reducing the exposure of public funds?

Mr Black: It is fair to say that one of the benefits of the funded scheme—both in theory and, I think, in practice—is that over a number of years the actuarial valuations can help to smooth out the fluctuations that take place. Clearly, that is more difficult to do for the unfunded schemes. As I think I said in answer to an earlier question, we have not looked in detail at the Treasury's management of the unfunded schemes or the Scottish Executive's interaction with the Treasury in influencing how those schemes are managed, so I cannot help much more on that issue.

The Convener: Clearly, there is a great deal that needs to be addressed, although the committee cannot easily delve into the issue given that it involves local authorities. We will discuss the issue again under item 7. I thank the Auditor General for dealing with the issue in such detail.

Audit Scotland (Annual Report 2005-06)

10:49

The Convener: Item 4 is to receive a briefing from the Auditor General on Audit Scotland's annual report for 2005-06. I advise members in advance that, to make up time, I will try to compress items 5 and 6.

Mr Black: I never thought that I would say this, but presenting an annual report comes as light relief after the previous item. I hope that the committee agrees with that sentiment.

I am genuinely pleased to present to the committee our latest annual report, which is being sent to the Scottish Commission for Public Audit, together with our full audited accounts, in accordance with the Public Finance and Accountability (Scotland) Act 2000. In due course, the SCPA will publish our accounts and lay them before the Parliament and in September it will meet us to conduct its annual review of our performance. Those scrutiny arrangements, which are governed by good statutory provisions, are important because they ensure that Audit Scotland is held to account in an appropriate and robust manner.

There is another straightforward point that I would like to make. Sometimes it is easy to forget what Audit Scotland is. Audit Scotland was established by the Parliament with one sole purpose—to provide services to the Auditor General and the Accounts Commission. I am not an employee of Audit Scotland, nor is the Accounts Commission; we take services from Audit Scotland. In a sense, I hold the organisation to account for the services that it provides. However, the Parliament thought it appropriate that I should be the accountable officer for Audit Scotland because, in effect, I direct what happens in the organisation. Although the set-up is complex, it works quite well. I thought that it would be useful to remind people of that.

I will summarise some of the key messages from the report on what, as the committee knows, was a busy year. Audit Scotland secures the audit of almost 200 public bodies, which spend about £27 billion of public money in Scotland. Our publication of 234 reports on public bodies over the year represents a significant volume of activity.

The best-value regime covers local government. For the Accounts Commission, Audit Scotland delivered best-value reports on eight councils. That system is now firmly established and will continue to develop. We published integrated overview reports on the national health service

and local government. As the committee knows, I believe that such reports could provide robust evidence for parliamentary scrutiny of major spending programmes.

We published 38 performance audit reports, which included complex cross-cutting reports on subjects such as delayed discharge in Scottish hospitals and council housing transfers. We considered how entire systems were operating. Although the 196 annual audit reports that we produced on individual public bodies in Scotland are not presented formally to the Parliament, they form an extremely important part of Audit Scotland's output because they capture the significant audit issues that arise in local bodies. Increasingly, that vital work is based on our modernised audit process, which seeks to concentrate on the big risks and performance issues in individual public bodies and to provide assurance on financial management and reporting.

There are two other projects that I would like to mention. First, a major retendering exercise was completed successfully, as part of which we awarded audit appointments to Audit Scotland and a number of private firms that will work closely with us over the next five years on the auditing of the 200 or so public bodies. Secondly, as the committee will recall from a previous meeting, Audit Scotland delivered the national fraud initiative, which found £15 million of overpayments and savings in Scottish local authorities.

We will continue to ensure that our work achieves the twin objectives of holding bodies to account and helping them to improve, either through our overview reports or our specific studies. I believe that independent public audit has a key role to play in offering assurance to the public on governance and the effectiveness of public services. By providing independent challenge and evidence of best practice, we also encourage improvement.

As part of Audit Scotland being held to account by the Parliament, it is important that I should ask the organisation to make every effort to present its annual report to the committee and to get our accounts into the hands of the SCPA before the Parliament rises for the summer recess each year. I thank my colleagues in Audit Scotland not only for their work on the annual report but for the excellent work that they have done and the commitment that they have shown over the whole of the past year. Their hard work and professionalism do not often receive public acknowledgement, so it is a pleasure for me to thank them in public today.

As ever, I will be happy to answer questions. Diane McGiffen, who is master of all the detail in the annual report, is here to help me.

The Convener: Very good. The floor is open to members.

Susan Deacon: I thank the Auditor General for the report. I am pleased to see the breadth, depth and range—and all such things—in the work that Audit Scotland continues to do. You referred again to Audit Scotland's twin objectives of holding to account and helping to improve. I suspect that we asked you the question that I am about to put last year, but I will ask it again.

Looking to the future, what are your plans for doing more to further your objective of helping to improve, not only at the local level but nationally? I see a connection between the issue and our earlier discussion on community planning. As an organisation, Audit Scotland now has a remarkable insight into what is going on right across Scotland in many of our key public services and areas of investment. I am sure that you will have been thinking about the ways in which you can draw on that learning and use it to further improve services, locally and nationally.

Mr Black: Yes. I agree that the issue is extremely important—indeed, I take personal satisfaction in that. We have been reasonably successful in recent years in highlighting what works best and what does not work terribly well. There are a number of different levels to our work in this area, the first of which relates to the national reports that are produced in my name and laid in Parliament. As the committee knows, in those reports we often refer to the good practice that seems to work well. We attempt to promulgate and promote that practice across the public sector—by and large, we find the reports are welcomed for that.

At the next level down—the level could be said to support our formal reports—we produce occasional pieces of work that are designed to assist managers in local bodies to manage their resources well. For example, some of the work that we did on delayed discharge was done at this level. Behind the report that was made to the Parliament, some very interesting work was done on systems issues that needed to be addressed locally. Our Audit Scotland people interacted extensively with the relevant health service managers in doing that work. Another, more recent, example is the guidance that we provided to community health partnerships on their planning function. Of course, their work impacts very much on community planning and local government.

The next level is the level at which some very promising and exciting developments are being made. As we modernise the audit of the 196 or so public bodies, we are getting a much better sense of their key priorities and of where the performance weaknesses and risks are. As you say, given that we are involved in each and every

public body in Scotland, we have a unique insight into where things are being done well. Increasingly, I envisage that we will take that good practice, encourage our auditors to communicate well with one another and share information across the system.

Having seen the potential to do that, we have reorganised Audit Scotland into specialist sector groups. We now have groups of staff—both those working to Caroline Gardner on performance audit and those working on financial audit—who specialise in areas such as the health service and local and central Government. If our people who do health service audits understand the business well, they are much better equipped to be confident in identifying good practice and translating it across the service.

Susan Deacon: That is very helpful. Thank you.

Mr Welsh: Even at first glance, we can see the massive range of investigations and reports in which Audit Scotland has been involved. Certainly, Audit Scotland is producing commonsense solutions to complex problems. You are also encouraging greater efficiency and effectiveness in our public bodies. I believe that Scotland is much the better for the presence of Audit Scotland and for its work on our behalf. I thank the staff for all they have done.

Mr Black: Thank you.

The Convener: As there seem to be no further questions or comments, I thank the Auditor General for briefing us on the annual report. I am sure that I am not saying anything out of turn, or stepping on anyone's toes, in saying that the committee greatly appreciates the work of all Audit Scotland's staff in producing the reports that so inform our work.

Audit Scotland (Work Programme)

11:00

The Convener: Under item 5, we will consider Audit Scotland's forward work programme and I understand that Caroline Gardner will brief us. I propose that we should take a more formal approach than before and that this topic should be on the agenda at future meetings. We will therefore not have to exhaust the topic today.

Caroline Gardner: Over the summer, the Auditor General and the Accounts Commission will consult jointly on Audit Scotland's programme of work for the national performance audit studies. Committee members have received a final draft of the paper that will go out to the bodies that we audit and to the whole range of our stakeholders. This meeting offers us the chance to discuss the paper with the Audit Committee, which is one of our most important partners.

We have tried to make the most of our unique position in Scottish public services—we look across the range of bodies that spend public money and provide public services. We have tried to take advantage of ways in which we can look through the system. For example, we can look at the Scottish Executive Health Department, at the health boards and at the organisations that spend money, but we can also look across the way, at local government and the other partners who are involved in providing public services.

The consultation paper sets out a long list of potential topics. I should stress that there are more topics than we will be able to work on. Rather than representing something close to the programme that we will finally adopt, the list presents a real choice. We will use the views that come back to us from the consultation to decide which of the topics should form the basis of our programme of work over the next couple of years. Feedback from the Audit Committee will be important, so we were keen to give members time to consider how the topics on the list fit in with the committee's interests and priorities, and how they link back to the work that it has done over the past three years.

The proposed topics, which have been influenced by current policy developments, focus on areas of high public expenditure and areas in which major change is either expected or under way. We will take particular account of the views and interests of service users; in other words, we will step away from the organisations that provide the services and move towards the people who use and rely on those services. Their views should be at the heart of our programme of work.

We have taken full account of the programmes of work of our partners in the scrutiny world—the other inspectorates and so on. At the end of the consultation exercise, we will seek opportunities to agree with them the programme of work.

We are committed to demonstrating the impact of our work in ensuring improved quality and efficiency in public services. In each of the studies in the paper, we have tried to suggest what we think the improvements to come out of the work will be. We will build on those suggestions as the programme is agreed.

I am pleased to have had the chance to bring the paper to the committee's attention, and I hope that we can engage in a dialogue with you over the summer and into September when business resumes.

The Convener: The report is quite full. When we have considered such reports in the past, we have given an informal response. Partly, that has been because the committee did not want to appear to be directing the Auditor General—which, of course, it is not our business to do. We are beginning to come to the end of the work of this committee, and there is continuing consideration of the relationships between committees and of committees' accountability to the Parliament. It would therefore be worth while if the committee were to take a more formal approach this time. We have received a report and we should put our thoughts down on paper. Those thoughts will be our response to the consultation. That would be helpful for the committee, because it would show the strong relationship that we have with the Auditor General and the Audit Scotland work programme.

I am relaxed about members asking any questions that they might have, but I seek their support on my proposal that the committee should make a more formal response to such things in the future and that we should put this item back on the agenda at a later date. Are members agreed?

Members *indicated agreement.*

Margaret Smith: I have a question on the proposed study topic "Support to Students", which is a topical issue. Student support covers a wide range of issues, but the proposal focuses very much on student loans, which are now only part of the support that is provided to students. For example, the forthcoming changes to fees will have an impact on Scottish students who study in England because they will incur more debt and will need access to more loans to pay those fees. Also, consideration should be given to how the bursary system has worked in providing support to students from poorer backgrounds. Why will the proposed study be limited, on the face of it at least, simply to student loans when significant

numbers of students—including both my sons, who will probably go to university this year—will not have access to student loans? There are much wider issues about student support and whether we are getting it right.

Caroline Gardner: That is a good question. Throughout the programme, we have tried to strike a balance between topics in significant areas of public policy—such as supporting people, free personal care and how legal aid supports the justice system—in which studies would be drawn quite widely and other areas in which studies would be much more focused in their application. For the proposed study topic, we have drawn the boundaries quite narrowly around the changes that are being introduced in the administration of the student loans system. We will welcome the views of the Audit Committee and other stakeholders on whether the time is right to step back and take a look at the wider questions surrounding support to students or whether we should keep the focus narrow and concentrate at this stage on the administration of the system. We need to make the right decision on the scope and timing of the studies.

Margaret Jamieson: I seek clarification on the proposed study topic "Reducing Re-offending". Would such a study consider both those who are given short sentences and those who are given longer sentences? The two groups face different issues, in that those who are given a four-month sentence may well be able to take steps to ensure that the house in which they are currently a tenant remains theirs until their release, whereas those who are serving 10 years would not be able to do that. Can we get a wee bit more information on that?

Another aspect that I would draw to Audit Scotland's attention—I think that this is a matter of concern to all MSPs—is how the drug and alcohol action teams administer methadone programmes and how those programmes are linked to issues such as reoffending, mental health and associated areas.

Caroline Gardner: The thinking behind including that topic is that we are aware that we have produced several reports—for example, on youth justice and, last year, on prison programmes that are aimed at addressing offending behaviour—that have considered parts of the issue of reoffending, but we have not taken a step back to look at the bigger picture. If a topic that is identified in the draft work programme makes it to the final work programme, the next step will be to do a scoping exercise to ensure that we can look at enough of the system to be able to get to the causes of problems. The topic needs to be manageable, but we need to know that information is available for us to produce something. Those

comments are very helpful. We will talk to the committee further about the scope of the study if it goes forward to the final work programme.

Margaret Smith: I was the convener of the committee that scrutinised the bill that became the long and important Mental Health (Care and Treatment) (Scotland) Act 2003 and I think that all of us have the sense that although mental health is talked about as a clinical priority, it continues to be a Cinderella service. Even some of the changes that the Parliament has made to improve some services—I am thinking about—

Margaret Jamieson: Services for young people.

Margaret Smith: I am thinking in particular of services for young people; I thank Margaret Jamieson for that.

The Parliament added measures such as mother and baby units because a gap and a need were perceived on such matters. How will you decide on the focus on a client group or condition in that wide-ranging subject? You could consider whether issues that were highlighted in fairly new legislation have followed through into improvements on the ground. Susan Deacon raised that idea when she talked about the difference between the vision and the implementation. My anecdotal feedback on services for young people, for example, is that changes have not happened and funding has not appeared. I am interested to know how you will focus on such an important but wide-ranging topic.

Caroline Gardner: Thank you for that helpful suggestion. The Accounts Commission examined mental health services in the late 1990s before Audit Scotland was established and the Auditor General was appointed. At that stage, we considered primarily services for adults with long-term mental health problems who need contact with services over a long time if they are to avoid long-term admission to hospital or repeated admissions. We are aware that the needs of different groups of people are different, whether we are talking about child and adolescent mental health services, older people or adults with less serious but still debilitating conditions.

If the study proceeds, one task will be to scope it appropriately so that we consider the big questions but have something that is manageable. One way into that may be to consider the recommendations that Parliament made and how they have been turned into practical services on the ground.

The Convener: Members have no further questions on agenda item 5, so I thank Caroline Gardner for that briefing. We shall pull together a paper for the committee to discuss and submit as a consultation response.

Scottish Executive (Progress Report on Committee's Recommendations)

11:13

The Convener: Item 6 is consideration of a paper on the Scottish Executive's progress report on the committee's recommendations. I will explain the purpose of the paper. Members may recall that at our away day in October 2005, the committee discussed strengthening our arrangements for the Executive's periodic progress report on implementing the committee's accepted recommendations. Our concern was that we received too many responses or that we had recommended so much that eliciting a response was problematic. Because so many responses were required, they tended to be provided at the end of a parliamentary session, when we have little time to react. We want to distil that and to track the response to, and progress on, the most important recommendations.

11:15

The paper represents the beginning of that process. In table 1, the clerks have put together the strongest recommendations. Annex B provides a fuller list for members to refer to in case they feel that any recommendation has been missed out.

In paragraphs 9 to 11, I propose that we send the Executive the key recommendations in table 1 and that we consider whether to take oral evidence when we have the Executive's response, in an attempt to bring forward the process before the committee finishes its business at the end of the parliamentary session. We should seek the Executive's response to a smaller number of recommendations, so that we can begin to consider the effect that the committee has had.

Paragraph 9 mentions the committee's capacity to consider cross-cutting themes. When we write reports we consider particular issues, but the committee has published 20 reports in the second session of the Parliament, from which a number of themes have emerged. An individual department's accountable officer cannot deal with such matters, but the Executive's principal accountable officer might be able to do so on everyone's behalf. We should consider the matter, which is important. I invite members' comments before I ask the committee to take any decisions.

Susan Deacon: I welcome such an approach. It would be sensible to focus on the matters that the convener identified. We could probably reduce even further the key areas that we want to pursue.

In the context of our discussion about culture and practice in community planning, it is important that we try to practise what we preach. We should be sure that our questions and follow-up work will add value to the decision-making process and not prevent people from getting on with making improvements. Sometimes we do not explicitly ask ourselves about that. In that context, I wonder about the value of the detailed follow-up information on the NHS consultant contract, which was circulated recently; we should consider how much time and public money is tied up—and what the opportunity cost is—when people have to respond to our requests for information.

An awful lot of the responses that the Executive provides to us are process oriented. To be fair, that is perhaps because our questions are process oriented. We must try to strike a balance and elicit more from the Executive and other public bodies on the practical improvements that have been made as a consequence of what has been done, rather than just information about documents, meetings and reviews—I am not quite sure how we achieve that other than by constantly making the point.

Again, in the context of our earlier discussion, we should try to put more emphasis on culture change, rather than restrict our questions to structure and process. Such an approach might help to elicit a different balance of responses and—I hope—might even influence practice. I make no comment on the convener's specific recommendations, but I wanted to feed in my thoughts about our overall approach.

The Convener: That is helpful. In the light of Susan Deacon's comments, I am open to changes being made to table 1. Given that this is our last meeting before the summer recess, I suggest that members tell the clerks if they think that any points in the table are superfluous or less important than others. The clerk will bring those comments to my attention and we can take out those points and provide a more focused document. I am quite relaxed about doing that, because we should acknowledge that some recommendations have a higher priority.

On paragraph 9, does the committee agree to discuss with the Executive—through the clerks in the first instance—a mechanism for pursuing themes that have arisen, as opposed to the recommendations themselves?

Members indicated agreement.

The Convener: On paragraph 10, does the committee agree to send the paper to the Executive and request a response? Members should give the clerk their suggested amendments to the paper by the end of the week.

Members indicated agreement.

The Convener: On paragraph 11, do members agree to discuss the Executive's response at a future meeting and to decide whether to take evidence on the progress that is being made?

Members indicated agreement.

The Convener: That deals with the paper, which offers a useful way of enabling the committee to show whether and how it has added value to the work of Audit Scotland.

That ends our business in public. I thank everyone for contributing to a productive meeting.

11:22

Meeting suspended until 11:34 and thereafter continued in private until 12:00.

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