

AUDIT COMMITTEE

Tuesday 19 December 2006

Session 2

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AUDIT COMMITTEE

18th 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)

*Robin Harper (Lothians) (Green)

*Margaret Jamieson (Kilmarnock and Loudoun) (Lab)

*Mrs Mary Mulligan (Linlithgow) (Lab)

*Margaret Smith (Edinburgh West) (LD)

COMMITTEE SUBSTITUTES

Mr David Davidson (North East Scotland) (Con)

Marlyn Glen (North East Scotland) (Lab)

Eleanor Scott (Highlands and Islands) (Green)

*Mr John Swinney (North Tayside) (SNP)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)

Angela Canning (Audit Scotland)

Bill Convery (Audit Scotland)

Caroline Gardner (Audit Scotland)

Graeme Greenhill (Audit Scotland)

Barbara Hurst (Audit Scotland)

THE FOLLOWING GAVE EVIDENCE:

Sir John Elvidge (Scottish Executive Permanent Secretary)

Neil Rennick (Scottish Executive Finance and Central Services Department)

Richard Wakeford (Scottish Executive Environment and Rural Affairs Department)

CLERK TO THE COMMITTEE

Shelagh McKinlay

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Clare O'Neill

LOCATION

Committee Room 2

Scottish Parliament

Audit Committee

Tuesday 19 December 2006

[THE CONVENER *opened the meeting at 09:33*]

Decision on Taking Business in Private

The Convener (Mr Brian Monteith): I welcome everyone to the 18th meeting in 2006 of the Scottish Parliament's Audit Committee. In particular, I welcome the Auditor General for Scotland and his team, committee members and members of the public and the media.

We have received apologies from Andrew Welsh, who is unable to attend because of constituency business. We welcome John Swinney as his substitute. We have also received apologies from Mary Mulligan, who will arrive late—also due to constituency business.

I remind members to switch off their mobile phones and pagers. We have a busy programme today. That will probably be reflected in less small talk from me.

Item 1 is to decide whether to take items 6 and 7 in private. Item 6 is the committee's consideration of the evidence that it will take under item 5 on relocation of Scottish Executive departments. Item 7 is the committee's consideration of our approach to the reports on which we will be briefed today and those on which we were briefed at our previous meeting so that we can decide how we wish to respond to them. The question is, that agenda items 6 and 7 be taken in private. Are we agreed?

Members *indicated agreement.*

“Overview of the financial performance of the NHS in Scotland 2005/06”

09:35

The Convener: Item 2 is a briefing from the Auditor General on his report “Overview of the financial performance of the NHS in Scotland 2005/06”.

Mr Robert Black (Auditor General for Scotland): Good morning. My report “Overview of the financial performance of the NHS in Scotland 2005/06” was published on 14 December 2006. This year's overview report on the national health service focuses on financial performance and is based mainly on the audited accounts and auditors' reports for 2005-06.

As the committee knows very well, Scotland is spending more each year on the health service. The Scottish Parliament voted £7.5 billion for the NHS in Scotland in 2005-06, and the NHS also received £1.5 billion from national insurance contributions, so total funding was around £9 billion. Funding for the health service is planned to reach £10 billion by 2007-08. As members know, Scotland spends more on health care per head of population compared with other United Kingdom countries. Despite those increases in funding, the service will continue to face a number of financial challenges in the coming years, including, among others, pay modernisation initiatives, the impact of service redesign, the new national tariff and rising energy prices.

As a whole, the NHS incurred a small overspend of £176,000 against its revenue budget and a £70.8 million underspend against its overall capital budget. That resulted in a total underspend of £70.6 million against the overall health budget. That underspend compares with an overall overspend of £32 million in the previous year.

The 24 NHS bodies reported an overall underspend of £69.6 million against their revenue resource limit for 2005-06. That compares with an overall underspend of £4.6 million in 2004-05 and appears to represent a significant improvement in the financial position of the NHS in Scotland. However, it includes the write-off of NHS Argyll and Clyde's cumulative deficit of £81.7 million during 2005-06. Excluding the NHS Argyll and Clyde situation, the increase in the total cumulative underspend from 2004-05 to 2005-06 was £4.9 million for the remaining 23 NHS bodies.

To understand the underlying financial pressures, it is important to look behind those year-end figures. Twelve NHS bodies had spending plans that exceeded the current funding

that they had available in the year. Ten NHS boards had funding gaps totalling £147 million—five boards accounted for £131 million of that total—and two special NHS boards also had funding gaps, although none had funding gaps in the previous year.

My previous overview reports have commented on the fact that NHS bodies have relied on non-recurring funding to achieve their financial targets or to support their financial position. That continues to be the case. I want to mention issues that arise in a few boards in particular, but the use of non-recurring funding is an important issue. Although we must recognise that the use of non-recurring funding is a normal part of running the NHS in Scotland, such funding should not be used to excess or for sustaining day-to-day activities in the longer term. Eighty per cent of the measures used by the boards that I mentioned related to non-recurring funding, so boards are still relying significantly on such funding to plug the gaps.

Two health boards—Lanarkshire NHS Board and Western Isles NHS Board—failed to achieve one of their financial targets and reported a combined cumulative deficit of £10.9 million. The corporate governance arrangements at Western Isles NHS Board featured as an issue in my previous overview report, but the auditor has reported some improvements on the issue in 2005-06 and the board's internal auditors have made a number of recommendations, which the board is currently addressing.

The auditors for NHS Highland qualified their report on the 2005-06 accounts due to a difference of view concerning the board's accounting treatment of two private finance initiative contracts. As the committee is aware, I have already presented to the committee section 22 reports on Argyll and Clyde NHS Board, Highland NHS Board, Lanarkshire NHS Board and Western Isles NHS Board.

I want to highlight to the committee the position that auditors reported on NHS Lothian. I have commented on the financial performance of NHS Lothian and the former Lothian University Hospitals NHS Trust in each overview report since 2001-02. NHS Lothian relied on non-recurring measures totalling £32 million plus savings totalling a further £24.3 million to report its surplus of £179,000 in 2005-06. NHS Lothian's five-year financial plan forecasts that the board will break even in 2006-07. However, the financial position shown in papers submitted to Lothian NHS Board in recent months suggests that the board might overspend its budget for 2006-07. That was certainly the situation in September, when the figures were finalised for my overview report.

A further point is that the auditor's work on systems and controls at NHS Lothian found

important areas where basic financial internal controls were, in the auditor's view, absent or not operating as well as they should.

I also want to mention, in the context of the NHS, the efficient government initiative, about which I will brief the committee later. The NHS in Scotland is expected to make a contribution of £523 million in savings and efficiency gains by 2007-08. Cash-releasing savings have been reported across the NHS, but few time-releasing savings have been reported. The NHS had aimed to achieve time-releasing savings of some £22 million in 2005-06 but no savings were reported for that year. Members can find more information on how the efficient government initiative applies to the NHS on pages 20 and 21 of the overview report, which provide further details. I recommend that part of the report to members.

A further factor adding to pressure is the move to single-system working. The move presents boards with an opportunity to improve financial management and to harmonise budget setting and controls. My report comments on improved financial management arrangements but also highlights several boards where further work is required. Most NHS bodies are making progress on setting up structures and governance arrangements to support single-system working, but the transition is proving particularly challenging for some of the larger boards. Community health partnerships are anticipated to play a key role in reshaping health services in Scotland and in helping to promote partnership working. I am pleased to note that most CHPs were operational by April 2006, although my report recognises that governance arrangements are at an early stage of development.

In conclusion, the NHS in Scotland had a significant overall underspend in 2005-06, pretty well all of which was due to an underspend on capital. Many NHS bodies continued to rely quite significantly on non-recurring measures during 2005-06 to support their financial position. However, from 2006-07, the opportunity to make capital-to-revenue transfers will be removed. As a result, the challenge of remaining in financial balance will be all the greater for NHS bodies. In addition, health boards are expected to continue to deliver savings in line with the targets that have been set under the efficient government initiative. Therefore, it will be all the more important that boards ensure that they have in place strong financial planning and financial management arrangements.

Convener, my colleagues and I are, as ever, happy to try to answer any questions that committee members might have.

The Convener: Thank you very much. Clearly, there are a number of underlying issues in the

report in which members might be interested. I have several questions that I want to ask, but I invite questions from other members first.

Mr John Swinney (North Tayside) (SNP): I have a question on the issues of efficient government and productivity that are mentioned in the financial overview report. As part of the process of auditing the management of health boards and the efficient government initiative, are Audit Scotland and the Auditor General in effect involved in encouraging, directing and supporting boards in their efforts to identify opportunities for making recurring productivity improvements in the delivery of health care services? If so, are all boards engaging in that process and responding to that challenge, or is performance throughout the country patchy?

09:45

Mr Black: I expect auditors to support continuous improvement by bringing to the attention of public bodies areas in which other organisations are using best practice and there is audit evidence that supports the recommendation of that best practice to other bodies. That is a general role of auditors.

As the committee knows, the efficient government programme is a comparatively recent initiative. It was launched in 2004, so it is early days for it. The only work that we have undertaken to date on efficient government in the NHS and elsewhere has been on the systems and processes for capturing the information that is necessary to report savings. I will give a progress report on the efficient government programme later in the meeting. That said, I expect auditors to endeavour to monitor health board initiatives that have been particularly successful and to recommend successful initiatives to other boards. We will include in future overview reports examples of good practice in the health service, as we have included such examples in past reports.

I emphasise that the Scottish Executive is putting in place a lot of support for public bodies through the efficient government delivery division, the e-procurement initiative and the national procurement initiative generally. That support includes support to the health service to promote best practice in the drive for efficient government. The auditors have a complementary role in supporting what is happening in the Executive.

Susan Deacon (Edinburgh East and Musselburgh) (Lab): I, too, want to ask about the efficient government initiative. In particular, will the Auditor General say a little more about time-releasing savings? I understand that an important distinction must be drawn between potential cash-releasing savings and time-releasing savings.

Cash-releasing savings have been the subject of efficiency measures in the NHS since God was a boy, but time-releasing savings are particularly interesting. Will you say more about progress on time-releasing savings?

The Convener: I am also interested in time-releasing savings. The report states that the NHS aimed to achieve savings of £22 million from time-releasing activities in 2005-06, but that no savings were reported in that year. In 2006-07, the NHS aimed to achieve savings of £46 million. The figures suggest that it will have to find £68 million to £69 million in the next year to reach the position that it should be in. How can it double its efforts in 2006-07?

Mr Black: I will make two points. First, as you said, the NHS has had no significant success to date in delivering time-releasing savings. It aimed to achieve time-releasing savings of £22 million in 2005-06, £46.5 million in 2006-07 and £73.9 million in 2007-08, as a result of better consultant productivity—the committee has, of course, extensively considered that topic in the past. My report on the consultant contract highlighted the difficulties of achieving such savings, as many consultants work for more than their contracted hours. It is important for us not to have inappropriate expectations about what might happen in future years. A significant challenge is involved in achieving those time-releasing savings.

Secondly, the terms and conditions of service for many NHS staff are strictly preserved for perfectly sound reasons to do with the welfare of those staff, but that can sometimes make it more challenging for boards to find new ways of delivering services with the same resources. Delivering time-releasing savings in order to improve productivity and impacts is quite a challenge in the NHS.

Susan Deacon: I want to pursue that a little further. I recognise the challenges that exist and do not want to get into the distinctions that auditors draw in such matters, which I am sure are important. However, in layperson's terms, it strikes me that time-releasing efficiency savings have the most potential not only for reducing spend, but—crucially—for improving practices, performance and productivity. An enormous debate has gone on for decades, which will doubtless continue, about whether cash-releasing efficiency savings in the public sector deliver efficiency improvements or whether they are more to do with reducing spend in particular areas. However, it is of particular concern that there has been least improvement in time-releasing efficiency gains, which we hoped would result in sustained and sustainable performance and productivity improvements. I am interested in what you have to say about that matter in general and about what

the NHS might be expected to do in the future to bring about significant improvements in time-releasing savings, which are important.

Mr Black: I remind members that not cutting public spending is a fundamental principle of the efficient government programme and that the programme is not about only savings. I understand that the policy is that any cash that is released as a result of more efficient working is ploughed back into the service.

The report states that significant cash-releasing savings have been made, which have been redeployed in the service. The report mentions, for example,

“£38 million of savings from national arrangements for the pricing of drugs”

and states that

“The target for the year was £42 million”,

which was quite ambitious. The savings of £38 million are available for reinvestment in the health service. I understand Susan Deacon’s point about the importance of time-releasing savings in driving innovation and better practice, but I encourage members to bear it in mind that significant savings have been made in other areas, not least as a result of the national arrangements for the pricing of drugs and improved drug prescribing—savings of £21.6 million have been identified as a result of improved drug prescribing.

Robin Harper (Lothians) (Green): Paragraph 100 of the report, on page 25, states that

“NHS boards are devolving key areas of responsibility to their CHPs”,

and paragraph 99 notes that

“Governance arrangements in CHPs are still developing”.

Are boards also developing a new set of baselines against which to monitor the performance of community health partnerships?

Mr Black: As we say in the report:

“Governance arrangements for the new CHPs are at an early stage.”

The report includes a map that shows the 10 areas of Glasgow—the agenda is big and complex. Because responsibility for delivering services is being devolved, it will be more important to have information systems that allow the centre to capture what is happening at the devolved level and the extent to which the CHPs can make a contribution to the efficient government agenda, for example. That is a challenge.

Perhaps my colleagues from Audit Scotland can say a little more about what is happening.

Angela Canning (Audit Scotland): Through the boards, the Executive is working with CHPs to develop joint improvement targets for them. Obviously, that work will cover what is going on in the health service as well as how the health service is working with local authority partners to deliver better services for people at the local level. The Executive is progressing that work.

Margaret Jamieson (Kilmarnock and Loudoun) (Lab): I want to ask about the impact of national contracts on achieving savings. The big issue is the impact of those contracts on small to medium-sized businesses in local areas. Has any work been done on whether small businesses have ceased trading because of national contracts? The report does not cover that issue, but we should look at matters more widely, get outside the silo and consider the impact that there has been.

Mr Black: As you say, the analysis that we undertook for the report did not cover that issue, and my colleagues do not appear to have any general knowledge about it. I am sorry. We have not considered the issue.

Margaret Jamieson: Forgive me, but I also want to ask about NHS Ayrshire and Arran. That board’s ability to achieve its spending forecasts has been challenged. I represent the area in question and am concerned that the board will not meet its forecasts. Has there been a further update on the situation? The report states:

“At the beginning of 2005/06 the board planned to reduce its cumulative surplus of £22.9 million to £9.3 million by the end of 2005/06.”

The board has received an extra £13 million since then. Is any further information available on whether it is on track to spend that money? Will it again bank the money?

Barbara Hurst (Audit Scotland): We do not have any up-to-date information on that. We had a similar discussion about NHS Ayrshire and Arran last year and we asked what the money was not being spent on. The money that it had at the end of 2005-06 had been held over for some key clinical priorities. It was simply slippage of planned expenditure into the next year.

Margaret Jamieson: Surely the board should have a better handle on the matter. The issue has again been identified, so the Health Department should assist the board to ensure that the slippage is reduced as much as possible. Is it doing so?

Barbara Hurst: We agree that carrying forward such relatively big surpluses is not good. Doing so is better than carrying forward a deficit, but the board’s financial management is still an issue.

Mr Black: Essentially, the Executive and the board should address the matter together, as Margaret Jamieson said.

Mr Swinney: I want to return to consultant productivity and to what Susan Deacon asked about. Demands on the health service will certainly increase as a result of the demographic issues that we face. Is the non-achievement of time-releasing savings and therefore productivity improvements a particularly alarming signal of where the health service is heading? Will it be unable to cope with the inevitable demands that will be placed on it in the years to come as a result of increases in people's life expectancy, for example? We are entering a spending cycle in which the kind of increases in resources that there have been in the past few years will not be forthcoming. Notwithstanding the achievements that there have been with drug budgets and so on, is not that the key issue relating to the health service's performance that must be tackled?

Mr Black: A full answer to that question would include consideration of the speed with which service redesign will be fully implemented. The need to deliver health services more appropriately in the future in community settings and to free up resources at the acute end of the sector in order to address needs that are best addressed in acute hospitals underpins service redesign. An issue that underpinned the consultant contract was that of freeing up consultants' time and providing the right environment for them to work more innovatively and flexibly as part of a whole system of health care.

I wonder whether the team has any other information that will help to answer Mr Swinney's question.

Barbara Hurst: We produced a detailed report on the consultant contract earlier this year. In the process of doing so, we thought that it would be difficult to demonstrate savings without there being a very robust way of measuring them. We understand that the Executive is now working with colleagues across the UK to develop a measure for consultant productivity. However, as the Auditor General said, that will rely on there being good ways of assessing how services are being delivered differently, and I do not think that the health service can demonstrate that at the moment.

10:00

Susan Deacon: I want to ask about single-system working, which is something that we have not touched on in our questions, although it was mentioned in the Auditor General's opening remarks. The report states:

"Most NHS boards are making progress in setting up structures and governance arrangements to support single system working but the transition has been more challenging for some of the larger NHS boards."

I would like the Auditor General to elaborate on that.

Some five years have passed since unified boards were first put in place, and around three years since legislation was finally enacted to remove NHS trusts in Scotland. There was a clear expectation that that would bring about general improvements in ways of working and in making the system pull together, but there was also an expectation that there would be a move towards the sharing of functions and the removal of duplication in human resources, finance and payroll functions across all the different entities within a board area. Some streamlining of management across board areas, moving away from the multiplicity of chief executives and the like, was also expected. Can you give us some assurance that real and meaningful progress in those areas has been achieved?

Mr Black: It is an area of considerable concern to all of us, and it is for that reason that the auditors will be monitoring the situation quite carefully this year and next year. I anticipate that that theme will feature quite significantly in the next overview of the health service, which will look at both performance and financial management.

The challenge in the larger boards is intrinsically one of size and complexity, but it is also related to the fact that single-system working is taking place at the same time as the move to community health partnerships and community health and care partnerships. That creates quite a complex and challenging range of issues for the board at the centre to manage and shape. Members of the team may be able to give the committee more insight into the position in the boards.

Barbara Hurst: In paragraph 83, we mention the shared services project, although fewer savings are now anticipated from that, purely because quite a lot of activity has happened around single-system working. We have highlighted a case study from Lothian, and it is clear that some boards still have different financial systems across their functions, and that they really need to move to a single system. Not only is that approach more efficient, but it reduces any risk of mistakes happening in the accounts. In general, savings are being made across the boards, but some boards have specific problems with integrating their systems.

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

I remind members that we will consider later in the meeting how the committee wants to react to the briefing and the report.

“The 2005/06 Audit of the Scottish Fisheries Protection Agency”

10:03

The Convener: Item 3 is a briefing from the Auditor General on the Scottish Fisheries Protection Agency. I believe that Caroline Gardner is to give us that briefing on his behalf.

Caroline Gardner (Audit Scotland): The Auditor General has prepared a section 22 report to bring to Parliament's attention the decision of the Scottish Fisheries Protection Agency to cancel the procurement of a new fisheries protection vessel. It is worth making clear that the agency's accounts were not qualified.

The agency began a programme to replace its vessels in 2003. In August 2005, it started work to procure a fisheries protection vessel called a Minna-type vessel because its specification was developed from the original FPV Minna, which had been delivered in 2003.

The tender exercise for the new vessel proceeded until a preferred bidder was identified, in February 2006, when the Minister for Environment and Rural Development sought clarification on the procurement procedures that had been used. At that point, a legal firm with substantial experience in European Union procurement law and an independent procurement specialist were appointed to carry out a review of the procurement process. Their report in May 2006 found a series of flaws relating to the pre-qualification questionnaire that was used, the scoring system that was used to shortlist bidders, the requirement to use preferred manufacturers for certain types of machinery, the way in which the agency answered questions that were received during the tender period, and the introduction of a second and final bid stage that was brought about by the preferred propulsion system for the boat being made available earlier than had originally been expected. Overall, the report concluded that those flaws gave rise to concerns about compliance with EU procurement rules, and the agency decided at that stage to halt the procurement process. It also agreed to review its procurement procedures before starting a new procurement process.

There is no evidence to suggest that the agency did not treat the final bidders equally, but the cancellation of the procurement exercise highlights the need to have an agreed procurement strategy that complies fully with EU procurement regulations. The cancellation means that the operating life of the existing vessel will need to be extended. It has slightly higher running costs, is

less environmentally friendly and is less operationally capable than the replacement is planned to be. As a result of the cancellation, the agency has incurred costs of £57,000, plus staff salaries, and there is no guarantee that a future tender exercise will not result in higher bids than those that were received in the cancelled exercise.

The appointed auditor will keep the agency's proposals to amend its tendering instructions under review. It will also take a close interest in any future attempts to procure a fisheries protection vessel of that type.

We shall try to answer any questions you may have.

Robin Harper: The SFPA is a major Government agency. What guarantees are there that other Government agencies and departments are following best advice and practice in procurement, according to EU directives? How did this happen?

Caroline Gardner: As always with such matters, a long and detailed series of events is involved. There is a central procurement department in the Scottish Executive that advises departments and agencies that undertake significant procurement exercises. There were differences of view on occasion about which would be the quickest route to go down. The agency's view governed the process up to the point at which the review was carried out. It is important to stress that, looking forwards—rather than with hindsight—the best way is not always clear cut, but the agency has agreed to review its procurement procedures to ensure that they comply fully with best practice in future.

Mr Swinney: I am a bit troubled by a couple of references in the report to the fact that the Scottish procurement directorate failed to apply EU rules properly to the tendering process. Paragraph 9 states:

“The SPD noted to SFPA that various references to ‘build location’ and ‘experience of tenderer’ as evaluation criteria are not permitted under EU rules.”

Subsequently, at paragraph 15, there is reference to the questionnaire being

“contrary to EU procurement rules”

because it asked about

“where the vessel was to be built, company health and safety policy”.

I quite understand that EU rules would suggest that you cannot specify where the vessel is to be built, but I am a bit troubled by the fact that a company's health and safety policy is not a legitimate criterion for questioning by our Government. I am also concerned that the tenderer's experience is not a legitimate criterion.

We are talking about vessels that have to undertake public services on the open seas. I would have thought that a tenderer's experience of building something would be material. A company's health and safety policy will certainly be material to the cost of a tender.

I have no issue with the question about where the vessel was to be built, but the other questions are of a different order. Can we have some information about why they are considered not to be legitimate?

Caroline Gardner: As a layperson, I share your interest in why EU procurement rules require that. Your questions are probably better put to the procurement directorate than to us, but Graeme Greenhill may be able to give you a little more information.

Graeme Greenhill (Audit Scotland): You need to distinguish between questions that you can ask in the evaluation process and questions that you can reasonably ask for information purposes only. You can ask about company health and safety policy for information only; you cannot ask as part of the evaluation of tenders.

Mr Swinney: I quite understand the distinction that you are making, Mr Greenhill, but a company's health and safety policy will be a material consideration in evaluating the price that it can offer. If I allow my workers to go up on scaffolding without harnesses, for example, or if I send up only three workers whereas another company would send up 10, that will have a material impact on the cost of the tender. I appreciate that that is not a question for Audit Scotland, but in assessing what has gone on with the SFPA and in Parliament's legitimate pursuit of where a level playing field can be found between companies in this country and companies in other countries when they price for jobs, if health and safety policy is not a material consideration in evaluation I suspect that there will be a barrel load of other criteria that we think are also material to the consideration and should be examined. I suggest that there might be a bigger can of worms to open.

The Convener: That is just the phrase that I was thinking of. We can discuss how we might pursue that matter under agenda item 7. I cannot imagine that there is much more that Audit Scotland can add.

Caroline Gardner: That was going to be my response.

Margaret Smith (Edinburgh West) (LD): I do not know whether you will have the answer to my question, or indeed whether you are the right person to ask, but I shall ask it nevertheless. The halt in the process has delayed the new vessel. You mentioned the costs involved—about £57,000

plus staff salaries—in cancelling the tender exercise. Can you give any indication of what the delay is likely to be? Do you perceive further costs arising because of the delay?

Caroline Gardner: We understand that the new procurement process has not yet started, so it is not possible to speculate what the overall delay might be. The procurement process is clearly not something that can happen quickly, and neither is the building of a vessel, so the delay is likely to be significant. The other possible area of costs is claims by unsuccessful tenderers for costs that they have incurred. Based on the judgment of the lawyers and the consultant who were involved in the reviewing process, the agency considers that the risk of challenge is low, given that it had clear reasons for terminating the tender process. However, if any of the unsuccessful tenderers decides to take action, that will be a matter for the courts.

The Convener: I thank Caroline Gardner for that briefing on the Scottish Fisheries Protection Agency section 22 report.

“The Efficient Government Initiative: a progress report”

10:13

The Convener: Item 4 is a briefing from the Auditor General on “The Efficient Government Initiative: a progress report”.

Mr Black: I am publishing today a report on the efficient government initiative. I have called it a progress report because the initiative is a part of a continuing five-year programme, which was launched in 2004, to modernise and improve public services.

It is important to be clear about the role that Audit Scotland has played to date. It is not possible for us at this stage to give a general assurance about the accuracy and reliability of the efficiency gains that are being reported because there are still some significant weaknesses in the information, so, in our report, we have commented on the extent to which the efficiency gains that have been reported so far are based on robust processes and information. Further work will be necessary to demonstrate the achievements of the initiative and its impact on the quality and level of service delivery. I emphasise that we are not seeking to provide an independent assessment of the accuracy of the level of efficiency gains that have been reported to date.

The efficient government plan was published in November 2004. The Executive indicated that it could achieve efficiency gains amounting to £1.5 billion in the three-year period to March 2008. Some £900 million of those gains were expected to be cash releasing: the same level of service being delivered with less money. The other £600 million were time-releasing gains: more or better services being delivered with the same money.

10:15

The Executive has since identified projects that are expected to deliver nearly £1.3 billion of efficiency gains. It is working to identify projects that will deliver the rest of the gains and it expects to announce them shortly.

The Executive has set targets to quantify the gains that each project is expected to deliver in each of the three years of the initiative. In September 2006, the Executive reported efficiency gains that amounted to £442 million, against its target of £405 million in the year to March 2006.

Audit Scotland reviewed in some detail progress on 12 of the major projects that the Executive identified. Between them, those 12 projects cover £380 million of the £442 million of efficiency gains that were reported for 2005-06. Our review

concentrated on progress in comparison with the expectations that were set out in the efficient government plan and considered the scope for improvement in the systems and processes that were in place to record and report efficiency gains. We found clear evidence of a commitment to improve efficiency throughout the public sector. However, further action is needed to provide assurance on the level of efficiency gains that is reported and their impact on service delivery.

I draw members' attention to five matters on which improvement is necessary. First, setting a robust baseline is essential. If the Executive is to measure robustly the progress that is being made against efficiency targets, it must have a good baseline of information on costs and service outputs and outcomes. Most of the projects that Audit Scotland reviewed appeared to have established robust baselines, but some needed to be improved. For example, the information that was used to establish the baseline for the initiative to reduce sickness absence in the NHS was poor, because some health boards could not provide accurate data on the level of sickness absence at the start. If no robust baseline exists, the risk is that the reported progress in reducing sickness absence could be unreliable.

Secondly, more needs to be done on quality measures. Efficiency gains will result from the initiative only if the level and quality of services are at least maintained. The report shows that it is possible to track the level and quality of a service. We give the example of the monitoring arrangements that relate to the quality of legal services that are supported by payments from the legal aid fund.

However, in other areas, more needs to be done to track the impact of efficiency initiatives on the level and quality of the service that is provided. For example, the employment of classroom assistants in schools was expected to release teachers' time. The idea behind that project is to increase staff productivity by releasing teachers from administrative tasks to allow them to spend more time with individual pupils. However, no measures identify the extent to which teachers are managing to work more productively through that release of time.

Thirdly, methods for calculating efficiency gains are not always robust. The report highlights several cases in which the calculation of efficiency gains was based on extrapolation. For example, NHS boards reported savings of £21.6 million as a result of better drug prescribing, but reliance was placed on the extrapolation of information by the chief pharmacist in each board area.

Another example is the £122 million of efficiency gains that the 32 Scottish local authorities reported in 2005-06. The value of the gains was based on

research that the Improvement Service commissioned. That research produced the estimate of efficiency gains of £83 million in 21 councils that took part in the research work. Of that total of £83 million, £37 million was based on case studies at six councils and £46 million was based on a survey questionnaire that 15 councils returned. The six case studies were the subject of scrutiny and challenge to validate the savings that the researchers claimed, but the researchers did not do the same with the self-reported survey data from the other 15 councils. The Improvement Service advised us that it considers that the detailed case studies show that councils underestimated rather than overestimated the efficiencies that were made. However, in my view, the overall approach is insufficient to validate the accuracy of the reported savings.

Fourthly, better supporting information is needed. Audit trails are important, because they show how a project's efficiency gains are calculated all the way from the data collection process through to the processing, analysing and reporting phases. Most of the projects that Audit Scotland reviewed had a clear audit trail, but in a few cases the Executive could not check reported gains because insufficient information was provided to it. The drug prescribing project that I mentioned is an example of that. NHS boards reported savings of £21.6 million, but apart from a reasonableness check that NHS National Services Scotland undertook, no other work was done to verify those significant reported savings.

A final matter on which tightening up is needed relates to development costs. Some savings are claimed gross of development costs, while others are netted off. The Executive's guidance says that, when possible, development costs that relate directly to efficiency gains should be deducted from the efficiencies that are being claimed. In most of the cases that Audit Scotland reviewed, developments were expected to meet several business objectives and not just to deliver efficiency savings. For example, the NHS developed the new Scottish workforce information standard system to provide better management information to NHS managers and not just to deliver efficiency savings. In such cases, it is appropriate not to deduct development costs from the reported efficiency gain.

However, Audit Scotland has identified instances when development costs should have been deducted from the reported efficiency savings but were not. For example, the Association of Chief Police Officers in Scotland reported efficiency gains of £3.7 million from reducing sickness absence in 2005-06. It is unclear whether the development costs that were associated with enhancing the occupational health

service to improve attendance rates were deducted from the £3.7 million of efficiency gains.

In conclusion, a wide body of evidence suggests that the efficient government initiative is delivering savings that would not otherwise have been achieved. In general, people who are responsible for delivering efficiencies throughout the public sector are responding well and the initiative is being embedded in the day-to-day business of managing and running public services. However, significant improvements in the information systems that underpin the work are still needed. Without better information, there is the prospect that uncertainty will continue about some of the efficiency gains that are reported.

With Audit Scotland's support, I will continue to monitor the implementation of the efficient government programme and, through the audit process, I will keep under review when it might be appropriate to issue a further report.

The Convener: Thank you, Auditor General. The report is interesting.

Mr Swinney: From my experience on the Finance Committee, I recall a letter from Caroline Gardner to that committee in about August 2005, in which concerns were expressed about the need to develop robust baselines, the identification of output and quality measures and the fact that the calculation of efficiency gains must be after the deduction of development costs and so on. I paraphrase the letter, because it is not in front of me, but it said that without such progress it is difficult to validate the savings that are reported.

In the report that the Auditor General has published today—more than 12 months after that letter was issued—I see the same criticisms and concerns. Has any material improvement taken place in the information-gathering process in the intervening 14 months or so since Caroline Gardner made those remarks to the Finance Committee?

Mr Black: The contribution that Caroline Gardner offered to the Finance Committee was based on Audit Scotland's assessment of the efficiency technical notes, as I am sure Mr Swinney recalls.

Mr Swinney: That is correct.

Mr Black: We commented in some detail on three matters: measurement, methodology and eligibility. At exhibit 3 in the report, we summarised what we said at that time. The world has moved on, but we acknowledge that some issues remain to be fully addressed. The Executive acknowledges that further work is necessary to develop the efficiency technical notes so that reported efficiency gains can be validated. Our responses and comments last year helped to

inform the revised efficiency technical notes, which were published in March 2006, so the Executive is making progress, but there is still some significant way to go.

Mr Swinney: From the dialogue between the Auditor General and the Executive, can he say what proportion of material improvement has been made since the correspondence was exchanged with the Finance Committee in August 2005? Has the Executive made 5 or 10 per cent of the 100 per cent of progress that is required?

Mr Black: I am not sure whether we can give you such assurance, but I ask Audit Scotland colleagues, who are closer to the detail than I am, to help with a general idea of how things are going.

Bill Convery (Audit Scotland): It is difficult to put a number on it. Progress has been made in a variety of ways; some baselines have improved, as has some record keeping. We now try to capture how much more time a teacher provides for individual pupils or, if a policeman is replaced by a civilian, how much more time he spends on the beat. Processes have been established throughout the past year and will continue to be established. We do not have a figure that shows a 5 or 20 per cent improvement. A range of measures is being implemented in all the projects.

Mr Swinney: If no number exists, is it fair to say that there is still a way to go?

Bill Convery: Trying to measure such matters is very complex and a good piece of work has to be done yet.

Mr Swinney: The report's clear conclusion is that unless that work is done, it is difficult to validate the information that the Executive has provided.

Bill Convery: Yes. It will be very difficult to validate accurately the savings figures that have been claimed. It may seem implicit that savings will be made by replacing experienced policemen with civilians, replacing teachers with classroom assistants and reducing lecturers' time on administrative work. They may seem eminently good cases of efficiencies, but saying accurately how much they have saved is complex.

Margaret Jamieson: My question is about the standardisation of reporting systems. They need to dovetail centrally and locally, yet we find in the report that some efficiencies—particularly those that ACPOS identified—cannot be drilled down into. That is a concern. Under the justice portfolio, savings in prison escorting and court custody services are indicated to be £10 million, £35 million and £50 million, yet when the contract was awarded to Reliance, nobody could tell us how many hours police forces spent on those activities,

never mind how much money they spent. How much can we rely on the figures that are being reported to us?

Mr Black: I am not sure whether we can give you a kitemark on the degree of reliance that can be placed on the numbers. The underlying point of the report is that the direction of travel is significant and positive, but that quite a lot of work needs to be done on large areas to capture information that will allow us to give members any assurance about the precise savings that are being delivered.

The prime responsibility in such matters lies with accountable officers, who are expected to sign off reported savings on the basis of assurance statements that project managers provide. Project managers often believe that efficiencies are being achieved and, of course, they are close to the scene of the action, but that is not the same as having robust information that allows us to validate that that is happening.

Margaret Smith: I will ask about two or three matters rolled into one. The general perception, which I think the figures back, seems to be that the people who are taking the biggest hit are in local government and the health service. The perception, at least, is that the Executive's departments are not pursuing efficiency savings internally as robustly as they expect others to. Do you feel that there has been any improvement in that respect?

Can you also comment on the fact that, after certain statements on education funding, efficiency savings in education seem almost to have been ring-fenced, but without any clarity as to how savings made from what most people believe are front-line services will be reallocated?

10:30

Mr Black: It is true that the health service and local government contribute the biggest absolute amounts to efficient government initiative targets. As we show in exhibit 6, in which we rank the projects that are expected to deliver the most efficiency gains, NHS savings come at the top of the list, followed by local government, non-NHS procurement and so on. Exhibit 7, on page 15 of the report, sets out that information in the form of a pie chart. I could have included in the report another pie chart showing who spends the money. Roughly a third is spent by the NHS, another third by local government, and the final third by all the other agencies in Scotland and central Government. As a result, the indicative savings targets are not generally out of alignment with the volume of devolved spending under the control of the different agencies.

However, it is also true that, within the broad totals for savings, significant savings are expected to be made through general efficiency savings delivered by the top-slicing of the resource allocation to NHS bodies and local government. It is for individual bodies to manage and achieve those savings within their budgets, and that work has been supported by quite a number of initiatives from the centre, including e-procurement and other procurement initiatives.

Margaret Smith: How clear are we about what happens to the savings that are made? For example, will the savings made in the NHS be kept within the health service?

Mr Black: As I said earlier, the principle behind the efficient government initiative is that all savings are reinvested in the service. However, I do not think that we have any information on how that will happen.

The Convener: In our discussion of the report "Overview of the financial performance of the NHS in Scotland 2005/06", we touched on the fact that, as far as efficiency in the NHS is concerned, savings are not necessarily reinvested to reduce public spending. Is there a different discipline at work in the efficient government initiative? Surely the fact that savings are not reinvested to reduce expenditure influences how soft or hard any information might be.

Mr Black: I am not sure that I would draw that distinction. We are all aware of the general pressure on resources. The NHS financial overview report, which the committee considered only this morning, very clearly indicates that, although the system is coming in in balance at the end of the financial year, some very significant financial pressures underlie the presented figures. Indeed, those pressures provide an enormous incentive to those who run and deliver NHS services to achieve efficiency gains.

One of the very positive aspects of the efficient government programme is the range of support initiatives that the Executive has introduced to assist in driving efficiency improvements that will help with the overall picture. I do not think that, in the overall system, there is any lack of incentive to improve efficiency.

Susan Deacon: I have three questions. First, I wonder whether the Auditor General will draw on his own experience and insights and provide some broad, overarching comments on the approach taken by the efficient government initiative to drive public sector efficiency. This is neither the first nor, I imagine, the last drive by central Government to deliver improved efficiency in the public sector. You have made it clear that, according to the evidence, the initiative is delivering savings, but how effective has the approach been in delivering

improvements in public services? Moreover, in light of the work that you have carried out on this initiative and on the other approaches that I am sure you have seen in your many years and decades in public sector management, how do you think the overall approach to delivering efficiency in the public sector might be improved?

Mr Black: I am not sure that I have time to give a comprehensive answer to Susan Deacon's challenging and extremely important question, but I will offer one or two brief comments that might be helpful.

First, I should point out that, as the efficient government programme sits not in isolation but within a framework that is designed to modernise, improve and ensure investment in public services, any response to your question must consider the wider picture. For example, alongside the application of the efficient government initiative in local government, best value reviews that are being carried out on all councils place their performance at the centre of their agenda and require them to report in public on service delivery and performance. Moreover, in parallel with that, we are working with the Executive to develop better performance indicators that will challenge councils on how each of their services is being delivered. The efficient government initiative is part of a much wider approach towards driving modernisation and improved efficiency.

One sweeping generalisation that I will make—and here I step outside the area of hard audit evidence—is that the efficient government initiative strikes me as the most sustained and purposeful commitment to improving the efficiency of government in Scotland that has been made for quite a considerable time. As I hope my report demonstrates, although real and significant doubts remain about the absolute numbers that we have set out, we have been struck by the fact that the commitment to efficiency is becoming embedded in the public sector and feel that some significant initiatives that have been introduced in areas such as procurement will endure.

Susan Deacon: I am very grateful to the Auditor General for rising to the challenge presented by that broad question. Convener, you will be pleased to learn that, in my other two questions, I will focus on particular issues.

The report says that there must be an improvement in how the impact of efficiency savings on quality is measured, and recommends:

"More needs to be done to develop measures of output quality to ensure that service quality is maintained".

Is there a danger of putting too much emphasis on what is measurable and not enough on what is important? Indeed, is it not the case that the impact of some aspects of service quality on

individuals, communities or the country is difficult, if not impossible, to measure? I wonder whether you will elaborate on that hugely important issue and assure us that, in future, there will be a focus not only on the aspects of public service quality that can be measured but on the aspects that people recognise as important.

Mr Black: Susan Deacon has identified a significant risk. Indeed, because of that very risk, our report emphasises the importance of doing more to develop good measures not only of the quality but of the quantity of services. Without such a move, efficiency gains might be claimed that have an adverse effect on the quality of service that is delivered. We cannot analyse that because the information is not available, but it represents one of the big risks that the efficient government initiative must address.

Susan Deacon: My final—and much more specific—question relates to the efficient government delivery division, which your report recommends be retained and, I believe, developed. Indeed, you say that the division should have

“an appropriate level of resources and skills to drive forward the initiative and to monitor its progress”.

Will you tell us a bit more about the EGDD's size and composition—by which I mean the professional background, skills mix and so on of the people who work in it? What should its size and composition be in future?

Mr Black: This is one of the more detailed areas of the report. The efficient government delivery group has evolved into the efficient government delivery division. It is embedded in the part of the Executive that drives its modernisation agenda. The new profile and status that the division has attained over the past year will probably enhance its effectiveness.

The division is not large; it contains four portfolio managers, each of whom is responsible for working with particular departments and related bodies by monitoring projects, offering constructive challenges to what is happening, helping to develop best practice and calculating the reported efficiency savings. They are also responsible for taking forward initiatives under the five work streams identified in the efficient government plan. As a result, they are central to the advice and support that the Executive provides to government in general on driving forward the efficient government initiative.

One detailed but significant point that has emerged is that, since its inception, the division has experienced quite a high turnover of staff. Its remit has been expanded to include development of the e-government initiative and the promotion of initiatives that are designed to enhance the

public's awareness of information technology and access to the internet. However, as its remit expands, there must be a risk that its focus on efficient government might be lost. We are not saying for a moment that that is happening, but we thought that it would be helpful for the report to highlight the risk.

My Audit Scotland colleagues might be able to provide further information with the group's size.

Bill Convery: The division comprises a very small team of six people: the four portfolio managers who have already been mentioned and two senior managers. We are concerned that, with only four portfolio managers, the team's capacity to validate the returns and savings arising from the processes that are being developed and are coming on stream in the various projects will be tightly challenged.

We believe that the team has sufficient expertise. It is made up of senior people. One has an audit background and one or two others have been in the Executive and certainly have expertise in the areas for which they are responsible. The problem is more to do with numbers than with the officers' abilities.

Susan Deacon: Does anyone in the team have a human resources or training background?

Bill Convery: I am not aware of that.

The Convener: I think that we have exhausted our questions for now, but we will be able to ask some more when we return to the issue later in the agenda. I thank the Auditor General and his team for their briefing.

Before we move on to item 5, I will suspend the meeting for a couple of minutes to allow witnesses to take their seats and members to have a comfort break.

10:44

Meeting suspended.

10:50

On resuming—

“Relocation of Scottish Executive departments, agencies and NDPBs”

The Convener: Under item 5, we will take evidence for our inquiry into the relocation of Scottish Executive departments, agencies and non-departmental public bodies. I welcome Sir John Elvidge, the permanent secretary to the Scottish Executive; Richard Wakeford, the head of the Scottish Executive Environment and Rural Affairs Department; and Neil Rennick, the head of the public bodies and relocation division of the Scottish Executive Finance and Central Services Department.

I thank Sir John for his patience. I hope that he enjoyed hearing the briefings from the Auditor General for Scotland.

Today, we will ask questions about the Auditor General's report “Relocation of Scottish Executive departments, agencies and NDPBs” and explore some of the key issues that have emerged. In doing so, we will focus on a number of important areas, which I will explain for the benefit of everyone who is attending the meeting or listening in. They are: the extent to which clear measures for success have been set for both individual relocations and relocation as a whole; the assessment and reporting of the costs and benefits of relocation; the question whether the relocations that have taken place represent value for money; the impact of those relocations; the quality, consistency and transparency of the decision-making process; and the Executive's role in determining the relocation of Scottish Natural Heritage's headquarters, including ministerial written authority under section 15(8) of the Public Finance and Accountability (Scotland) Act 2000.

Before Susan Deacon asks the first question, I invite Sir John to make an opening statement.

Sir John Elvidge (Scottish Executive Permanent Secretary): I will be brief, because I know that the committee's time is constrained.

In my written submission of 13 November, I set out the statutory requirements under which an accountable officer can request from ministers a written instruction to progress a particular action. Those requirements are set out in the memorandum that I issue, as principal accountable officer, to accountable officers, and which my predecessors issued in comparable terms.

In my submission of 16 November, I answered the committee's specific questions on the Scottish ministers' relocation policy. I understand that committee members have also received the written evidence that was submitted to the Finance Committee, including the Executive's response to the specific recommendations in the Auditor General's report, and a draft evaluation report that was prepared by our dedicated relocation policy team.

The evaluation confirms that the methodology for assessing relocation options, which has evolved over time, reflected ministers' objectives for the policy at the time, and that, with the exception of SNH, ministers' final decisions followed from the outcome of the methodology. Again with the exception of SNH, where a decision was taken to locate an organisation outside Edinburgh the lowest cost option or the one with a marginal cost differential was selected.

The Auditor General's report and his evidence to the committee confirmed that, once decisions were taken, the process of relocation in all the cases that were considered was well managed. Staff who moved and those who chose not to move were supported and there was no evidence of organisations' performance being adversely affected by the relocation process.

I am happy to take questions.

Susan Deacon: If I may speak on behalf of the committee, I thank you for your opening remarks and for the other documentation that you mentioned. I suggest, however, that the range of documentation and, indeed, debate on the matter might be clouding any shared understanding of the policy and its objectives. We have collected all the documents from the Finance Committee's deliberations on the matter as well as our own, and there is no shortage of words on the subject from ministers and officials. Will you summarise what the relocation policy aims to achieve and tell us whether it has been achieved?

Sir John Elvidge: The policy's primary objective is to achieve two benefits from relocation: to have a positive impact on the local economy of the area to which relocation takes place and to bring services closer to the public that they serve, balanced with which is the aim to achieve efficiencies in the delivery of those public services where possible.

Susan Deacon: I am grateful for that summary and will explore each of those points in turn. You identified the first aim as being to have a positive impact on the area to which the agency or organisation is relocated. How does the Executive assess that impact in general and with reference to the relocations that have taken place?

Sir John Elvidge: The independent advice that we have is that authoritative evaluation of the impact of such changes on local economies cannot be made in the short term and that one requires a minimum of five years to assess them, so we are not yet able to provide evidence of those benefits in the individual cases. There is background work that provides a robust economic analysis of the proposition that, in general, such benefits are likely to arise, but we have not yet been able to test that general proposition in the specific circumstances of any of the relocations. We are currently finalising the evaluation framework that will enable us to do that.

Susan Deacon: You said that the second aim was to bring services closer to the public that they serve. How successful has the policy been in achieving that objective? Will you clarify who those communities are? A number of agencies serve a diverse range of communities, so how will the Executive measure success against the second objective?

Sir John Elvidge: I am not sure that measurement is likely to be at the heart of our approach in that area. You are right to say that, in practice, many of the bodies that have been relocated serve a broad range of communities, so perhaps it is possible in only a minority of cases to find a clear-cut case of an agency coming closer to communities. It could be argued that SNH is a prime example of that. Although it is, of course, a national body and it provides its functions throughout Scotland, there was a feeling that those functions had particular relevance to the Highlands and Islands, where the most closely protected parts of Scotland's natural heritage are concentrated.

Susan Deacon: I will resist the temptation to pursue that last point. I have heard a robust counter-argument that it sends the wrong message about SNH's role, but that may be a point for other members to take up.

Given the difficulties that you identified in measuring success against your stated objectives, which we in the Audit Committee understand, how successful do you think the policy has been and on what do you base that judgment?

Sir John Elvidge: Without evaluation evidence, it is difficult for me to assess that. However, at the moment, there are no contra-indications to the general analysis that economic benefits are likely to flow from relocation. We see no diminution in how effectively the bodies perform their functions—or, at least, there is an absence of evidence of any such diminution. Identifiable gains—such as the increased flow of money into and the increased employment opportunities in local economies that have suffered relative difficulties—seem to support the argument that

positive outcomes can be expected when the detailed evaluations are carried out.

11:00

Susan Deacon: The Executive has said clearly that it has not set any targets. In the most recent update report submitted to the Finance Committee and circulated to this committee, the Scottish Executive says that it

“has not set targets or a wider strategic scope of relocation policy.”

That admission might be a cause for concern, given that we are now seven years into the policy's implementation. In the absence of targets, how can we or the Executive know where the policy is leading?

Sir John Elvidge: I will have to state the conventional reservation: the decision on whether to set targets is a ministerial one, and I am always cautious about advancing explanations of decisions that ministers have not taken, as opposed to decisions that they have taken. However, I can offer a view. Ministers might be making a judgment on whether the momentum of the policy is in line with their aspirations and expectations. They might be influenced by the fact that, in the majority of cases that have been considered, a decision in favour of relocation has been taken. They might, therefore, feel that no added impetus to the policy is required at this stage. I suggest that aggregate targets would be meaningful only if they changed the pace at which one moved towards them. If ministers are content with the pace of progress, it is perhaps not evident what would be added by having targets at this stage.

Ministers might also feel that it would be better to have more evaluation evidence before trying to reach a decision on the right aggregate level of activity, rather than reaching a set of decisions on how decision making in individual cases could be progressively improved.

Susan Deacon: We understand the difficulties of trying to assess what may or may not be in ministers' minds.

I will take you back into your comfort zone of facts and numbers, which might be our comfort zone as well. How many agencies or organisations—although I presume that we are happy to use the generic term “agencies”—have been identified for relocation review since the policy was adopted in 1999? How many posts are covered by those agencies? For how many agencies and posts has a relocation decision been taken?

Sir John Elvidge: I am sure that I can answer those questions, although doing so may require a

certain amount of scrabbling around among my bits of paper.

We have reviewed 38 organisations, which had, at the time of the review process, 3,855 posts. As a result of the process so far, 2,432 posts in reviewed organisations have been rebased outside Edinburgh and a further 260 are in the process of phased moves. Decisions have been taken on a further 1,001 posts that are to be relocated outside Edinburgh in the future, and 162 posts have remained in Edinburgh as a result of the review processes. I very much hope that those four numbers add up to the total with which I started.

Susan Deacon: I am not quick enough at arithmetic to confirm that calculation, nor to convert it into percentages. Perhaps you can give me percentage figures. Nevertheless, would it be true to say that the vast majority of the organisations and the posts within them that have been reviewed for relocation have been relocated?

Sir John Elvidge: Yes. There is no doubt about that.

Susan Deacon: Can you convert that into percentages?

Sir John Elvidge: I can have a go. Around 4 per cent of posts have remained in Edinburgh, therefore around 96 per cent of posts have either relocated or been identified for relocation.

Susan Deacon: What proportion of that 96 per cent have been relocated to Glasgow?

Sir John Elvidge: Fifty-four per cent.

Susan Deacon: Does it not concern you that a policy that is supposed to deliver economic and wider benefits to all parts of Scotland—successive ministers have consistently stated that that is its aim—appears not to be sharing those benefits around the country? More than half the posts concerned have simply gone from one end of the M8 to the other. Is that not a cause of concern?

Sir John Elvidge: I am not sure that it is my place to be concerned about the distribution of the posts. The locating of posts in a conurbation that contains a number of areas with problems of high unemployment is not obviously inconsistent with the objectives of the policy. It is, therefore, clear to me that in no individual case has the decision been inconsistent with the objectives of the policy. The judgment about distribution in aggregate is really a question for ministers rather than for me.

Susan Deacon: I appreciate that. However, in the interests of good policy development and implementation, ought there not to be a wider strategic overview of the policy to determine whether it is fulfilling the wider dispersal functions that it is intended to fulfil?

Sir John Elvidge: The conclusion of the draft evaluation report—that there is scope for relating the policy better to the range of other policies with similar objectives in relation to supporting local economies—is correct. It is difficult to make a judgment about the policy in isolation, as it is one tool in a range of tools for achieving similar benefits for particular parts of Scotland.

Susan Deacon: I want to return to a few of the numbers that you mentioned earlier. I shall round up for ease of reference for the purposes of the discussion but, if I captured what you said correctly, about 40 agencies and 4,000 posts have been part of the review process. At what point will, may or should the Executive decide that sufficient relocation has been carried out?

Sir John Elvidge: That is a difficult question. The Scottish ministers were at the forefront of an emerging trend in the UK and internationally in favouring the policy. The UK Government and the Government of the Republic of Ireland have both adopted broadly similar policies since the Scottish ministers adopted the policy here. Given that trend in international thinking, it is difficult to regard the policy as having a natural end point. Ministers have on occasion talked about seeing the policy as a form of safety valve for pressures in the Edinburgh and Lothians local economy. None of us can know whether the present high rate of growth in the Edinburgh and Lothians economy will increase or diminish in the future. That trend might be one factor that impacts on views about whether we are in sight of an end point for the policy.

Susan Deacon: In essence, you say that there is no current end point, but that consideration may be given to one in the future. I guess that we cannot speculate on the matter. However, over time, surely the context surrounding each relocation decision will change. We started from a zero base in which no agencies or functions had been relocated, but a sizeable number of agencies have now been relocated, as we have heard. How does that changing context feed into individual review decisions? Does it affect the balance in decisions on individual cases?

Sir John Elvidge: There are two angles of approach to that question. One is to say that there will clearly come a point in time when every organisation that naturally falls within the scope of the policy will have been reviewed. There is a natural cycle. The decision on whether we start the cycle again will clearly be an important one, but it will take us several more years to reach that point. Beyond that point, we will be into a different set of arguments about whether ministers should shift the boundary between what is and what is not considered for relocation. So far, ministers have taken the view that a range of central Government

functions should not necessarily be considered as part of the policy.

The second approach to the issue is to consider whether there is a natural limiting point for the broader objectives. I suspect that there is not. The Auditor General's report makes the important point that we are talking about a small slice of the labour market. If one relocated outside Edinburgh every public sector job that was capable of being relocated, in overall labour market terms one would still not have such an effect on the functioning of the Scottish economy that one would obviously push up against some limiting factor. In that second sense, the cumulative impact probably would not act as a limiting factor at the Scottish level.

11:15

Susan Deacon: I am conscious that I must cover several other areas, so I will resist the temptation to probe that issue further. Other colleagues might wish to pursue it.

Will you say briefly—a yes or a no—whether any particular considerations ought to be factored into the implementation of the policy with regard to the role of Edinburgh as the capital city? Is there a need to co-locate a critical mass of Government functions or other specific functions with the seat of Government and the Scottish Parliament?

Sir John Elvidge: There is no need for me to have a view on that, because ministers already do. Their view is that yes, some functions should not be distanced from the seat of Government.

Susan Deacon: Thank you for that.

I will round up some of the issues and ask about them together. We are keen to continue to explore the objectives governing the relocation policy, which we have talked about in general terms. However, with reference to specific relocations, to what extent have the objectives been consistently stated and consistently applied over the seven years for which the policy has been carried out?

Sir John Elvidge: They have been stated and applied with progressive consistency. I do not think that anyone would claim that full consistency was evident at the beginning, but a number of steps have been taken to improve the consistency of the policy's application.

Susan Deacon: How have you sought to ensure consistency, given the timelines of individual relocation decisions which, as has been identified in a number of discussions and reports, sometimes meant that the objectives evolved or developed—or, to put it more pejoratively, the goalposts shifted—over the course of the review process? How has that been managed?

Sir John Elvidge: In general, we have tried not to change the basis of evaluation during the consideration of individual relocations. What has evolved—as a result of the accumulation of best practice and the identification of variations from general practice that have proved unhelpful—is the overall framework. It has been a process of learning as we go.

Susan Deacon: I have a few final questions. The agencies and organisations concerned, their management and, in some cases—when we are talking about arm's-length bodies and NDPBs—their boards have views and insights and are required to have some input into the process. Will you give us an overview of how the organisations that have been subject to relocation have had an opportunity to shape the objectives of their relocation reviews?

Sir John Elvidge: It is implicit in our approach that the management of each organisation has a full opportunity to discuss the relationship between its needs and the overall objectives. Consideration of individual relocations is essentially a bottom-up process that involves achieving a broad set of aggregate objectives. I do not think that the management or the boards of individual organisations would claim that their voices were not heard in the process. That is different from saying that they were always happy with the outcome.

Susan Deacon: Finally, are you working or liaising with colleagues in other parts of the UK or elsewhere on the development of the policy and its implementation? Have you considered the point that was made in Audit Scotland's report, that elsewhere agencies have a greater say over the final decision on location? Will such a direction of travel be considered in Scotland?

Sir John Elvidge: We are examining closely the developing experience elsewhere to determine whether there are useful things that we can learn. I do not have any basis for suggesting that a diminution of the ministerial role in final decision making is being considered by ministers.

The Convener: Before we move on to the next section, I wonder whether you can clarify something for me. You talked about evaluation and the five years that it may take to measure the policy's impact. There are areas of deprivation in Edinburgh, just as there are areas of wealth in some of the places to which posts are being relocated. Is any evaluation being undertaken with regard to the departure of organisations or agencies from Edinburgh?

Sir John Elvidge: We are monitoring the overall impact of relocations on the Edinburgh economy. As the draft evaluation report says, there is no evidence of negative impacts, but we are not

looking at the connection between the economies of specific, small areas in Edinburgh and the operation of the policy.

The Convener: I invite Margaret Smith to ask questions about the cost and benefits of the policy.

Margaret Smith: Before I do that, I want to ask about efficient government and best value. The Audit Scotland report concluded that there has been a lack of monitoring of the impacts of the relocation policy. How do you believe that the policy is fitting in with the efficient government agenda given that, as far as the Audit Scotland report is concerned, relocation was triggered by efficiencies in the organisation in only two of the 38 cases?

Sir John Elvidge: I think that there is a difference between identifiable, immediate efficiencies in the organisation and the wider efficient government agenda. There is no obvious reason why relocation should, of itself, inhibit the choices that organisations face in the wider efficient government agenda. One thread of the efficient government agenda is about the creation of opportunities, either at the national level in Scotland or at some level below that level, to buy into shared systems and shared solutions of some kind. Those opportunities should, in principle, be relocation neutral. For example, where an organisation is based makes no difference to its ability to take advantage of e-procurement Scotland.

Another thrust of the efficient government agenda is the emergence of some geographically based ways of exploring shared services and shared delivery. In principle, an organisation simply steps from the ability to be part of one geographical cluster to the ability to be part of another. An organisation may relocate to an area where that kind of thinking is either more or less advanced than it is in the Edinburgh area, but there is not in principle any reason why relocation should diminish future ability to engage with the efficient government agenda.

Margaret Smith: If an organisation in the private sector were deciding whether to relocate, some part of that process would involve a calculation of the cost of the relocation. However, the Audit Scotland report makes it clear that very little of that has been done in this case. Paragraph 39 of the report states:

"The Executive has not set up any mechanism for routinely gathering data. Consequently it has not undertaken any central review of the costs and benefits resulting from individual relocations. Although attempts have been made to gather some cost information, organisations which had undertaken relocation reviews were not able to provide complete information on projected and actual costs."

The costs of the policy must be set against the backdrop of a Government that is telling people in the public sector to be efficient. However, only two relocations have been triggered in any way by the efficiency savings that they will bring to the organisations concerned. I do not require an answer—you have given me the answer that you thought was reasonable. I do not think that it was, but each of us has a right to our view.

Sir John Elvidge: There is some territory that I would like to cover, but I may do so in response to a different question.

Margaret Smith: I want to ask some basic questions about the evaluation that you are now undertaking. When did the review begin and what was the trigger for it? Some figures in the evaluation report were not made available to Audit Scotland; in response to questions from me, the Auditor General said that some information about the costs of certain relocations had not been made available. In response to a question from my colleague Susan Deacon, you said that 54 per cent of relocations had gone from Edinburgh to Glasgow. That means that in its report Audit Scotland was unable to examine any of the costs of the majority of relocations that have taken place. What are the timelines for the Audit Scotland report and for your evaluation, which is starting to look at such issues? Why did you decide to conduct the evaluation in-house, instead of seeking an external review?

Sir John Elvidge: I will have to pass your more detailed questions to Neil Rennick, but I will deal with some of the broader issues.

A fundamental point in this discussion is the distinction between organisations' costs and the attribution of costs directly to relocation. We have monitored organisations' actual costs, to ensure that those costs are scrutinised closely. We have not tried systematically to disentangle from their costs the precise variation that is attributable to relocation. We have taken that approach partly because, as Audit Scotland has found, seeking to identify the costs that arise from relocation leads one to make a number of tricky judgments about what is and is not attributable to one change, when an organisation may be going through several changes.

There is a judgment to be made about whether one should pay the same attention to the second-level analysis in all cases and as a matter of routine. If one had any reason to suppose that the costs triggered by relocation might be so high that they called into question the value for money of the relocation, one would look closely at them. If general cost monitoring does not give rise to that degree of concern, one must ask what carrying out a second-level analysis would contribute to the decision-making process. In the majority of cases,

we decided that there was not sufficient reason to trigger a second-level analysis.

I do not know the precise details of the history of our evaluation work. I ask Neil Rennick to deal with the questions relating to that.

11:30

Neil Rennick (Scottish Executive Finance and Central Services Department): Much of this ground has largely been covered by the permanent secretary's answer.

The process of monitoring costs has been on-going from the point at which each organisation was identified for relocation review. The costs were monitored through the normal budget monitoring processes. Following the publication of the relocation guide last year, ministers indicated that we would undertake an evaluation of the policy to consider the impact on organisations and on areas. That evaluation has been on-going over the past year.

The work that was undertaken by Audit Scotland provided us with a particular model for setting out the costs. After discussing the issue with Audit Scotland, we used the cost information that we had received from the organisations and tried to populate the Audit Scotland model with that information. That cost information is set out in the evaluation report. Thus, it was not that the information was not held, just that it was not held in the format that Audit Scotland set out in its report.

Margaret Smith: From where I am coming from, and in the view of most members of the Parliament, the most basic principle of the relocation policy is the relocation of jobs across the whole of the country. However, the policy has eventually evolved into one in which the majority of jobs have been relocated from one central-belt city to another central-belt city. Furthermore, when we try to look at the costs involved, the very place on which we cannot get information is the place to which the majority of jobs have been relocated. That seems a little strange.

Neil Rennick: It should be pointed out that, of the jobs that it has been decided will transfer to Glasgow, around half have not yet been moved so cost information is not yet available. It is also worth noting that more than 600 jobs that are identified as being relocated to Glasgow were in practice already located there. The review decision was that those jobs should be retained in Glasgow and that other jobs should also be moved to Glasgow.

Margaret Smith: I will not go into the figures as we do not have time, but the point remains that

substantial numbers of jobs have been relocated from one city to the other.

On the costs of relocation, a layperson would consider that redundancy payments would be a considerable cost involved in relocation. However, I understand that redundancy payments were not included because of Treasury rules. Can you explain why they were not included?

Sir John Elvidge: I will do my best.

The first thing to be clear about is that redundancy costs were not included in Audit Scotland's analysis. It is right that they were not included because Audit Scotland was following the best-practice methodology, which says that redundancy payments have no economic effect at the national economic level because they are simply a transfer payment within the economy. Redundancy payments neither create national economic benefit nor diminish national economic benefit and, for that reason, are excluded. That explanation takes us pretty much to the boundaries of my knowledge of economic theory.

Margaret Smith: Let me respond to that as a layperson. Such considerations may be absolutely fine at a strategic economic national level—I do not want to get into discussions like that with you because you will bamboozle me—but different issues arise at the level where an organisation is deciding whether it should stay where it is, opt for the status quo and not lose any staff to redundancy, or relocate elsewhere. In fact, the Audit Scotland report confirms that most current staff did not transfer and that only a quarter of staff relocated. Therefore, some relocations have obviously involved significant redundancy payments. However, because of the Treasury rules on redundancy that you mentioned, we are not able to compare like with like. The real cost of relocating people is inclusive of the redundancy payments because they are a direct consequence of the decision to relocate the jobs. You will never get to the bottom of what provides best value for money if you decide not to take into account the biggest cost factor, which is staff costs.

Sir John Elvidge: I should probably make a distinction between what Audit Scotland has rightly and properly done and what ministers can take into account. Audit Scotland was not saying that, in reaching their decisions, ministers are not entitled to take redundancy costs into account. Redundancy payments are real expenditure and it is perfectly possible for ministers to weigh up that factor as one of their decision-making criteria. We are caught on the division between what an economic analysis of value for money tells us and the range of considerations that ministers might take into account. I do not think that we are saying that ministers ignore the existence of expenditure on redundancy where that occurs.

Margaret Smith: It has been said both by you and by ministers, and it is stated in the evaluation report, that it will take a period of time to be able to evaluate the impact of relocation on an area to which jobs have been relocated. The length of time involved goes from about five to 15 years. It is quite difficult to argue against that point, but you seem to be quite happy to make a fairly snap decision that there is no evidence of the loss of staff through relocation having adverse effects on the services provided, although we have had only a short period of time in which to evaluate that. Equally, we have an evaluation report that says:

"There is no evidence to suggest that retaining the relocated jobs in Edinburgh would have had any beneficial impacts on the city".

How come it will take us five years to be able to evaluate the impact for places to which jobs have been relocated but we can tell immediately that there is no evidence of any detrimental impact from those jobs leaving somewhere or of a diminution in the service provided by an organisation that might have lost three quarters of its experienced staff? How can you tell that?

Sir John Elvidge: Some of those issues are pieces of the jigsaw and one can make judgments about them. For example, one can monitor the standard of service in the short term. It is also about putting all the pieces of the jigsaw together to reach conclusions. I do not think that we are saying any more on any front at the moment than that there is no evidence of negative impacts. None of those statements claims to be a statement of overall impact.

Margaret Smith: You acknowledged that the Executive needs to monitor—I think that that comes from the criticisms in the Audit Scotland report as well—and you just talked about monitoring in the short term. Earlier, I asked why the evaluation report was done internally when it could have offered an opportunity to begin external monitoring in the short term and could have involved asking the users of the relocated organisations' services whether they had experienced any diminution in service. Why did you decide not to go with an external audit?

Sir John Elvidge: I ask Neil Rennick to start to help us with that and, if I can add something to what he says, I will.

Neil Rennick: There are two factors. First, we were covering new ground. We did not have an established methodology for the measurement of relocation policies, so we had no basis on which to construct a requirement for an external consultant to undertake an analysis. It seemed sensible for us to go through the process the first time round, to work out what information was available and to identify how we might proceed, drawing on the

information from external analyses from the private sector, for example.

Secondly, in undertaking the work, we drew largely on evidence from the organisations that had been through the relocation process. We spoke directly to them and examined the various documents that were prepared throughout the relocation process, including information on the delivery of services and the ways in which organisations had monitored the impact of their relocation. Those factors were taken into account in the evaluation report even though it was an internal analysis.

Margaret Smith: From what you have said, it is clear that you had no methodology. In looking at the organisations that have been relocated, I presume that you asked questions about the impact on staff. It is clear that the extended timescale of decision making had an impact on staff. My perception is that you questioned the staff who stayed with organisations and made the move—that is, roughly a quarter of them—but not those who did not. I presume that you agree that you can do more work to examine the timescales and the impact on staff. You should not consider only the impact on the staff who stay with the organisation.

Neil Rennick: In the evaluation report we acknowledge that there is a separate strand of work on the timescales and internal management of the process. That work is progressing and is drawing on some of the helpful advice from the Audit Scotland report.

On your point about staff, part of our consideration is to think about what the information tells us about the process. We need to consider how much information we would get from speaking to people who have clearly indicated their view by not moving with the organisation.

Margaret Smith: You believe that the policy benefits those areas to which jobs are relocated. I agree, because I believe that there is a detrimental impact on the places that lose the jobs. However, do you agree that the Executive needs to do more work to target the types of jobs that are moved to particular locations and more work on the value of the relocated jobs? In some cases, people's jobs have been shifted, but they have not moved to the new area. If people move with their jobs, there is a certain value in that. If they choose not to move but the job is taken up by somebody in the new location, there is a different value in that. What plans do you have to evaluate what those different values represent to the new communities to which organisations relocate? Will you consider moving jobs in a more targeted way? For example, if you move an organisation to an area of deprivation, what targeting and evaluation work can you do to confirm that some of the jobs will be available to

people who already live in that area, rather than the relocation simply involving putting in another office block?

11:45

Sir John Elvidge: Those are legitimate questions. One of the conclusions of the evaluation report is that there is scope for further sophistication in matching relocations to the needs of particular areas, which must be right. Currently, discussions take place with people who speak for particular areas, such as representatives from the local enterprise company and local authority, so those people have an opportunity to make their arguments. However, we would not claim that there is a fine-grained methodology for achieving the best-possible match between the relocated body and its new home, so there is scope to take the policy further in that direction.

Margaret Smith: In the interests of synergy—and constituency interest—I bring us back to the point that the convener made at the start of our discussion. There are different levels of need even in Edinburgh. Although Edinburgh appears to be doing incredibly well economically, some members of the committee represent parts of the city in which people live in deprivation and poverty. Therefore, there is probably a need for a second level of consideration, which takes account of the impact of keeping jobs in Edinburgh—not just in city-centre locations but in other parts of the city—as well as the impact of relocating to another part of Scotland.

The Convener: Our next area of concern is the quality, consistency and transparency of the decision-making process. We are short of time, so members should ask brief questions.

Robin Harper: I will do my best to be brief. According to the Audit Scotland report, there is

“a risk that the lease break trigger will not be applied consistently across all potential candidates.”

Audit Scotland also found that there has been variation in the criteria that are used to review potential locations and noted that certain locations have regularly featured on shortlists, whereas other locations have not done. Finally, Audit Scotland found variation between the locations that had been ranked highly in reviews and the locations that ministers ultimately chose.

I will try to roll my questions for Sir John Elvidge into one. How does the system ensure that the lease-break trigger is applied and how does the trigger relate to the policy objectives of benefit to the local economy and efficiency, which you mentioned in your opening remarks? Will you also comment on the differences between the triggers in Scotland and those used in the rest of the UK?

Sir John Elvidge: On how we ensure that the lease-break trigger is applied, our basic approach is to seek to be aware of all lease breaks. We have not had perfect information on that, but we have had information about most of the organisations—or bits of organisations—that might be considered for relocation and we are remedying deficiencies in the quality of our information about some of the less obvious buildings that might have lease breaks. We make sure that we know when the trigger might be fired, and it is then for ministers to judge whether they want the process to be triggered. The basic approach is simple.

Will you remind me of the second part of your question?

Robin Harper: It was about the extent to which the trigger is related to policy.

Sir John Elvidge: It is not; it is arbitrary. I do not think that anyone denies that there is no logical link between when an organisation happens to reach a lease break and the potential benefits of relocation. It is simply a pragmatic way of minimising one element of the cost equation of relocation. Buying out leases is typically an expensive thing to do and, *prima facie*, one would expect the cost of it to be a significant consideration in relocation decisions. However, I do not think that anyone suggests that there is a connection between that and that half of the underlying purpose that is to do with conferring local economic benefits elsewhere.

Robin Harper: My next question is on the consistency of the reviews. There have been variations in the criteria and weightings used in the reviews, and changes to criteria and weightings have been made late in the review process. Will measures be taken to address that problem? Clearly, that is confusing.

Sir John Elvidge: The history of the policy is of measures being taken to address those variations and bring more standardisation. It is a basic value judgment whether one should start with one framework that applies to everybody or with letting individual organisations work through the logic of relocation for themselves. So far, ministers have been persuaded that allowing the initiative to rest with individual organisations and allowing them to reflect those organisations' own circumstances is the right way in which to go. Where we have seen variations in practice that have appeared not to have a rational justification, we have tried to eliminate them. We have tried to eliminate outliers rather than reach absolute consistency for everybody.

Robin Harper: I have one final question, which I ask out of curiosity. Has any Government department offered itself for relocation?

Sir John Elvidge: That depends on what you mean by “Government department”. The small units initiative has consisted of departments offering those parts of themselves that have been relocated. In that sense, the answer is yes.

Margaret Jamieson: Can you tell us why certain locations continually appear on shortlists, and the extent to which that might be altered through your review? I ask that not from an Edinburgh-centric point of view, like that of my colleagues, but from a west of Scotland point of view.

Sir John Elvidge: We are monitoring closely the distribution of relocation decisions; for example, we are interested in why particular areas are candidates for several relocations but are never successful. We are interested in whether there is a common underlying obstacle to their success and, if there is, whether there is a blind spot in the policy that should be addressed or whether that common factor is, in some way, producing rational, expected outcomes.

Margaret Jamieson: Is there a possibility that certain areas will continue to be ahead of other areas because account is not taken of relocation decisions for a considerable time? For instance, of four relocations, three could go to one area while a second area never gets near that because the process takes too long for the relocations that have been allocated to be fed into the system.

Sir John Elvidge: I do not think that there is any danger of ministers not being able to see a pattern or to weigh it up in their consideration. However, there are in individual cases factors that will consistently drive some areas towards being likely to do better than others. The balance between the socioeconomic local-benefit objectives and the efficiency objectives of the policy means that some locations will generally find it easier to score on the efficiency side.

Locations that offer access to a larger labour market will consistently have an in-built advantage in larger relocations. For example, it is interesting that Glasgow has taken 54 per cent of the jobs but only about 30 per cent of the relocations. That tells us that Glasgow is doing better on the bigger organisations, which one would expect given that the ability to recruit a wide range of staff to large organisations will always be a factor in relocation.

We will continue to see some things that point initially in the direction of particular areas, but that is not the same as saying that ministers will never choose to override the weight of those factors.

Margaret Jamieson: Given that ministers would have the option to override, would such a decision be as transparent as the current system? I am not saying that the current system is all that it should be, but at least there is a tracking mechanism and

a rationale behind it. It is not so transparent to have decisions just being taken by ministers. How do we overcome that?

Sir John Elvidge: Ministers have indicated their willingness in principle to move towards giving fuller accounts of the reasons for their decisions. When those reasons flow largely from financial analyses—as you accept they have—there is probably no great need for further explanation. If we were to move away from that to a situation in which ministers were to apply other judgments, transparency could come only from ministers’ willingness to explain the factors that they took into account over and above the basic financial analysis.

Margaret Jamieson: In terms of the current review, will other factors be included—for example, Executive priorities such as regeneration inside and outside town centres—that could allay some fears of the organisations that relocate from Edinburgh about whether it will make a huge impact on the community to which they relocate?

Sir John Elvidge: I am certain that we shall gain experience of providing best-practice advice to organisations about how to address anxieties that their staff might have about relocation. That problem is faced by all relocating organisations; people tend to be less enthusiastic about unknown areas than they are about areas with which they have developed ties. We have begun to develop experience to address those concerns and to give people better information. That is the main area in which the factors that you identify are likely to come into play. However, I am less certain that there is likely to be substantial elaboration of the way in which we are able to compare people’s needs in particular locations; at least, I am less clear that I can see a definite path forward there.

12:00

Margaret Jamieson: In certain instances, you are specific on the relocation of organisations. Forgive me if I focus on local matters. The decision has been taken to locate Her Majesty’s Inspectorate of Education regional offices in Livingston, Clydebank and Ayrshire. Why, two years down the line, are we no further forward?

Sir John Elvidge: I will have to write to you on that—I do not know why it is taking us so long to pin down the precise location of HMIE’s relocation to East Ayrshire.

Susan Deacon: Margaret Jamieson’s final question leads neatly to my wider question, which is about the timescales of decisions. What is the average time from the announcement of a review to the announcement of a decision on relocation? Audit Scotland’s report states that, for the bodies that it considered, the average time is 17 months,

or 21 months for existing organisations. Do you have an update on those figures?

Sir John Elvidge: I do not. Unless Neil Rennick has it, we will have to write to the committee with that information. I would be surprised if the figures had shifted significantly.

Susan Deacon: As well as giving that average, the Audit Scotland report states that, in several cases, the relocation process has gone on for four years, five years or more. I am sure you agree that, whatever the outcome of the decision-making process, it is undesirable for organisations to have a question over their futures and for individuals to have questions about the location of their workplaces. I am sure that such uncertainty has all sorts of impacts on the ability of organisations and the individuals in them to plan for the future.

What impact has the protracted decision-making process had on organisations and individuals? Do you have any plans to expedite the process in the future?

Sir John Elvidge: I agree that protracted delay must be undesirable. No one wishes to lead an organisation during a protracted period of uncertainty. Many of the things that we have been doing are designed to shorten the decision-making period to avoid that problem. In general, delays are among the problems that arise when decisions are being taken for the first time. One can normally do much better when one has learned from such instances.

I cannot say that I have definitive evidence on the impact of delays on organisations. I am not aware of any evidence that the risk has materialised of a significant proportion of staff leaving an organisation during the period of uncertainty—that is to say, evidence of more staff leaving the organisation during that period than one would expect in a given timescale. The main disadvantage is what I think of as the distraction factor; one wants people to think about the job that they do and not about the uncertainty that surrounds them.

Susan Deacon: You addressed retention but not recruitment. Do you accept that, for individuals who are considering going to work for an organisation, the question of where it will be in the future is material? Do you accept that it is impossible to assess how many people have changed their decisions or how many people's decisions have been influenced because of that uncertainty? Do you accept that every ounce of common sense that we have tells us that that must have had an impact?

Sir John Elvidge: Absolutely. Our experience in the Executive tells us that it becomes almost impossible to recruit people for certain posts while there is material doubt about a change in location.

There is, of course, a relationship between retention and recruitment difficulties. The recruitment difficulties might not be huge, unless experienced staff are being lost, but there is no doubt that protracted delay has a negative impact on recruitment.

Susan Deacon: On timescales, there can be many reasons why relocation decisions become protracted. I understand that one is that further information might be requested or further studies might be commissioned. Registers of Scotland is a case in point—there has been uncertainty there for almost six years, I think, although I am pleased that some element of certainty has been introduced for the forthcoming period. In that case, ministers explicitly said that one of the reasons why things had taken so long was that further studies had been commissioned. I have looked at the studies, which are substantial, but I wonder how much value they have added to the decision-making process relative to the time that they have taken and the costs that must have been involved in commissioning them, given that such studies are often commissioned from external consultants. Could you comment on that?

Sir John Elvidge: In every case, we must have thought that the potential value of the study was worth the time and cost of the work. Registers of Scotland is a good example, because the nature of its business is changing significantly as technology revolutionises how it delivers its business. It has been genuinely difficult to gain an adequate understanding of where the business will be in order to make the business impact judgment. Of course, I cannot put my hand on my heart and say that, in every case, the impact on such decisions of having done the studies is as large as people thought it might be but, in every case, there was a reasonable basis for thinking that the impact might be large enough to make it worth doing the work.

Susan Deacon: The Registers of Scotland example is interesting in many ways. It has to be open to question whether it should take five and a half years to reach the rather sensible conclusion that location decisions should be embraced as part of the organisational change programme that the organisation is already developing. You may or may not wish to comment further on that.

The Convener: We have finished on that area of questioning—I do not see any volunteers. That allows me to move on to the next section of questioning, which is consideration of the relocation of the headquarters of Scottish Natural Heritage, with particular regard to ministerial written authority.

I should make it clear for the benefit of those who are not aware of it that Sir John was not the principal accountable officer at the time of the

decision. We want to see what happens and to understand the processes better, so we appreciate your being here to help us with that, Sir John.

Paragraph 3.3 of the memorandum to accountable officers from the principal accountable officer states that if a minister overrides an accountable officer's advice, the principal accountable officer should be informed so that he may give advice to the minister or office-holder. Was the principal accountable officer informed in relation to SNH and did he give advice to the minister or the accountable officer in that case?

Sir John Elvidge: I am very sorry to say that I do not know the answer to that question. I feel that I should, so I apologise.

The Convener: Is that something on which you could come back to us in due course?

Sir John Elvidge: Indeed, yes.

The Convener: That would be helpful.

Are you able to tell us what the process would be if the principal accountable officer were to disagree with the accountable officer's view that an action was incompatible with the proper performance of that accountable officer's duties? In other words, would the accountable officer still seek written authority, and would the principal accountable officer's views be made known to the Auditor General for Scotland, for example?

Sir John Elvidge: Gosh! That is a fascinating question of theology. That has never happened in Scotland or anywhere else, so I will need to address the point hypothetically. Such a view's being taken by the principal accountable officer would negate the accountable officer's request for direction. In practice, there would no longer be a direction, and all that would happen before the Auditor General was notified. It would therefore be as if it had never happened.

The Convener: That was useful clarification.

I turn now to the purpose of seeking written authority. The policy memorandum for the Public Finance and Accountability (Scotland) Act 2000 does not confirm the policy intention behind the provision requiring accountable officers to seek written authority. The purpose could be to provide protection for accountable officers, and an incentive to ministers to ensure that decisions to commit expenditure are proper and provide value for money. As the principal accountable officer, what are your views on the purpose of section 15(8) of that act?

Sir John Elvidge: My view is that the fundamental purpose of section 15(8) is to place decision making about the conduct of Government ultimately in the hands of ministers and not in the

hands of accountable officers. I think I am certain that that is its primary purpose, but it is carried out in a way that creates a form of accountability that is being substituted for the form of accountability that the accountable-officer system provides. The reason for the high profile of the process is to create an opportunity for Parliament to direct the processes of accountability towards the minister, whereas they would normally be directed towards the accountable officer.

The Convener: Your letter of 13 November states:

"Ministers are responsible for defending the specific action."

Does any guidance exist for ministers, setting out what is expected of them in defending the action? For example, is there guidance on how much information ministers should be able to provide about the basis on which they make decisions?

Sir John Elvidge: I can be confident in saying that there is no such guidance. Events such as the convener describes are so rare that it would be difficult to generalise for ministers about how they should conduct themselves in assisting Parliament in the exercise of accountability.

The Convener: Such rare and highly unusual events would attract a degree of interest.

In his submission, Mr Wakeford says that the Cabinet had

"agreed to incorporate revised guidance on public sector appraisals ... into the Scottish Executive's own procedures"

and he mentions the impact that that had on the DTZ report. As principal accountable officer, can you tell me whether any other relocation appraisals were revisited as a result of the revised guidance?

Sir John Elvidge: I do not think so. I am not aware of any such revisits.

The Convener: Again, I am happy for you to come back to me in writing if you want to check that. That would be helpful.

Are reviews of the processes in relation to ministerial authorities undertaken?

Sir John Elvidge: Could you elaborate a little further? I am not quite sure what those processes would be.

The Convener: Once a written authority has been issued, is any internal review carried out, either by you or by the department, to find out whether, procedurally, everybody was happy that it happened because it had to happen, and whether everybody was informed, so that ministers knew what their responsibilities were in issuing that authority?

12:15

Sir John Elvidge: Relocation is a process of such significance that it receives a high degree of scrutiny at all stages. Ministers reviewed the overall process relatively early in the life of the Scottish Parliament, once we gained some experience of the use of the mechanism, and they introduced changes to ensure—to put it loosely—that the view that was being expressed was the collective ministerial view, rather than risk its being otherwise.

The Convener: By “collective”, do you mean “Cabinet”?

Sir John Elvidge: Yes—although it is a process that involves the First Minister and Deputy First Minister on behalf of the Cabinet, rather than the Cabinet itself.

The Convener: Would that way of sharing the decision have been in place at the time of the SNH decision?

Sir John Elvidge: I believe that it would.

The Convener: That covers the areas that I wanted to pick up. John Swinney now has questions for Richard Wakeford.

Mr Swinney: In the material that the committee has seen so far, there is information on the financial considerations that were brought to the attention of ministers about the SNH relocation. What is not clear from that information is whether there was any other information that might have provided a counterbalance to the financial information that was provided. Can you shed some light on what information led the accountable officer to conclude that relocation to Inverness did not represent value for money in terms of the policy and the overall argument?

Richard Wakeford (Scottish Executive Environment and Rural Affairs Department): As you said, there was a financial analysis that examined net present value, taking into account property, travel, staff transfer costs and so on, over a 30-year period. That was subsequently adjusted because the guidance changed halfway through the process, which led to the figures that I put in the annex to my letter to the committee. That set of figures shows a range of hypothetical net present values for different locations, not for specific sites. The risks and benefits were also taken into account and are outlined in that annex. In putting the advice together, my predecessor—who was responsible for seeking the written ministerial authority—took all those factors into account.

Mr Swinney: In arriving at the judgment on Inverness, was consideration given to other project proposals that would have performed better financially than Inverness?

Richard Wakeford: The financial analysis that was based on the work that the external consultant, DTZ, did showed a range of NPVs. Inverness was among the most expensive of those. There were other factors to take into account; the conclusions that my predecessor reached about which of the options could be proceeded with and which represented value for money took account of them.

The test that he then applied was whether, if you had called him to the committee to defend a decision to relocate to Inverness, he would be comfortable that he was able to do so on the grounds of economy, efficiency and effectiveness. Because we have the evidence that he sought ministerial written authority, it is clear that he decided that he could not come and defend such a decision on those grounds.

Mr Swinney: In that assessment, did your predecessor also have recourse to the relocation policy's three key objectives, which are to

“ensure that government in Scotland is more efficient and decentralised”—

I think that we can all agree that SNH might have ticked that box by going to Inverness—

“provide cost-effective delivery solutions and assist areas with particular social and economic needs”?

Were those factors implicit in the judgment at which your predecessor arrived?

Richard Wakeford: Yes. I should not speculate, because he is my predecessor and he reached the decision, but it was for him to put weights on the different factors in order to come to the conclusions that he did and I conclude that ministers put a different weight on some of those factors in reaching the decision that they reached at the time.

Mr Swinney: Essentially, your predecessor followed the available processes for assessment under the Executive's relocation policy, tested the case against the objectives, either undertook or arranged for a financial assessment and came to the conclusion that, on the basis of that evidence, there was no case for relocating to Inverness.

Richard Wakeford: The financial appraisal, which was done by DTZ, was about the major elements of the likely costs and impacts. However, on top of that, a range of other factors that would be much more difficult to quantify were taken into account. If you are asking me whether lots of other figures were added to the assessment to come arithmetically to a decision that relocation to Inverness would not be compatible with economy, efficiency and effectiveness, I cannot claim that that was so because, as in many judgments that one makes, there are elements on which it is not possible to put a precise value. The things on

which it is normally possible to put a precise value went into the assessment and then there were a number of other factors about which we could be far from certain at the time.

Mr Swinney: To put it in slightly more colloquial terms, on the hard numbers, the case was against relocation to Inverness but, when you applied some of the other factors, such as socioeconomic benefit and the impact of decentralisation—if you were ever able to put a number on those things—a judgment was made. That is obviously what ministers made a judgment about.

Richard Wakeford: Yes.

Mr Swinney: The Auditor General's report refers to the fact that SNH

"was not given the opportunity to comment on the cost figures upon which ministers based their final decision and disputes the rationale behind some of the assumptions."

The permanent secretary said earlier—in response to a question from Robin Harper, I think—that organisations were generally left in the driving seat of the relocation assessment. Why was SNH plucked out? The permanent secretary said that organisations are generally left to decide about the mechanics of relocation, but the Auditor General says that SNH was not involved in assessing the cost estimates and disputes some of the figures on which ministers made their judgment. Why was the general position that the permanent secretary outlined not applied to SNH?

Richard Wakeford: I was not involved at the time, but there is a good deal of evidence on file of a close working relationship between my predecessor and SNH. I wonder whether the clue is in the letter that my minister sent to the chairman of SNH on 9 July, in which he highlighted elements that were relevant in ministers reaching a decision. It mentions the Scottish Executive's relocation policy, as would be expected, the intention to share public sector jobs and their economic benefits throughout Scotland, and significant efficiency gains. It also says that potential synergies could be explored, because SNH already had a significant presence in Inverness and a large part of its work is there, although I note the view that was expressed earlier in the committee that perhaps much of SNH's work needs to be done in other areas, too. However, that was certainly a factor that was mentioned.

The letter also says:

"In addition, because of the profile and nature of its work, SNH is a better candidate than other organisations for location in the Highland area."

That may give some clue as to why the minister reached a different conclusion from that which SNH might have reached in its own analysis. I

return to the point that I made at the beginning of my answer. There is plenty of evidence on file that a lot of work was going on in partnership between SNH and the department to analyse the various options.

Mr Swinney: We heard from the permanent secretary again that there has been no identifiable deterioration in the performance of organisations that have relocated. Is that the case with SNH?

Richard Wakeford: I believe that the organisation's performance has not suffered unduly, although dips might have occurred in some areas, as in any organisation when key staff leave and a vacancy is suffered. That happens to us in the Executive in Edinburgh as much as it happens to SNH.

During the review, SNH has been increasingly willing to review its overall structure and management systems. The move to Inverness may have changed the organisation's culture in a way that has made it more effective. It is probably anecdotal evidence, but the relationship between SNH and the Deer Commission for Scotland is much closer as part of an overall policy of bringing together the organisations that my department sponsors to work more closely. That has happened as a direct result of SNH's arrival in Inverness when the Deer Commission was reviewing its location requirements. The two bodies now share the SNH building in Inverness.

Mr Swinney: In effect, relocation has acted as a trigger for a wider reassessment of business processes by SNH.

Richard Wakeford: It has. As far as I can see, that factor was not taken into account in the analysis of the options on where to move to.

Mr Swinney: This point does not relate to SNH. Do you have further proposals for the relocation of any elements of the organisations that are part of your department? Are you considering any relocations?

Richard Wakeford: There is a short answer and a long answer. Most NDPBs and executive agencies that my department sponsors have been relocated away from Edinburgh, so I have no candidates in play for the policy of relocating from Edinburgh. However, the department is pursuing a policy of much closer working between several executive agencies, NDPBs, the Forestry Commission Scotland and Forest Enterprise Scotland, which are part of what we call the Environment and Rural Affairs Department family. As opportunities arise, we encourage those organisations to come together and co-locate around Scotland to deliver a better service to the customer and to deliver efficiency gains. That is also relevant in the process of developing rural development policy. In a consultation paper last

year, the minister outlined a process that will see some regionalisation in the consideration of applications for grant aid. That will mean that more work will be done regionally around Scotland rather than in headquarters.

12:30

In terms of the crude moving of jobs from Edinburgh to elsewhere, we have no current plans. However, two significant initiatives are under way to translate our thinking into the more effective delivery of policy to the people of Scotland: on the ground and the new rural development regulation.

Mr Swinney: Finally, your department has a presence in various parts of the country—as a department and through the NDPBs and executive agencies. Do you accept that you have to take the greatest care not to damage that by relocating agencies that are located outside of Edinburgh to other parts of the country?

Richard Wakeford: Some committee members may know my background. I came to the Executive from an organisation down south where that sort of damage was suffered. I bring personal experience of how it can inadvertently be made more difficult for an organisation to deliver for the people whom it serves and how important it is to take those elements into account in making judgments.

That is one of the reasons for our on the ground policy approach in which we are bringing together more closely the bodies within the ERAD family. We are trying to help officers in those agencies, who serve the people of Scotland, to come together more closely. If each officer sees the impact of their organisation's decision-making processes, we will deliver a better service to the customer. However, if we force that to happen too quickly, we could undermine the capability of each organisation to deliver the services that they are required to deliver. The process is tricky. It is therefore being led for us in a steady way, which allows us to involve the organisations fully in the process with the deputy minister chairing the steering group. The project is under way and we have the full involvement of the chief executives and chairmen of those organisations in taking it forward.

Mr Swinney: Thank you.

The Convener: I have one question for Mr Wakeford. Do you also have a follow-up question, Susan?

Susan Deacon: Yes.

The Convener: I will come to you in a second.

As a result of the further assessment work that was undertaken, did Inverness's position improve relative to the other relocations in the option appraisal?

Richard Wakeford: The figures are in the annex to my letter of 13 November. At a glance, I would say that the position did not improve; it got worse as a result of the application of the new guidance, which was based on the Treasury's green book approach.

The Convener: I just wanted to clarify the point.

Susan Deacon: In light of the evidence that we have heard, I have a few points of clarification. The first relates to the draft evaluation report, which went to the Finance Committee and of which we have a copy. The table on page 22 shows the various relocations. One column includes comments on the relocations, one of which relates to SNH. It says:

"Inverness selected given existing staff located there and SNH considered the most appropriate body to locate there."

Is it right to say that the status of that comment is different from that of the others? Surely that is an expression of ministers' views? It sounds like a summary of the letter that you read out—the letter in which your predecessor conveyed to the chair of SNH ministers' reasons for the Inverness decision. As I said, I read it as an explanation, which makes it different from the other comments that are made in the table, which give officials' interpretations.

Neil Rennick: Yes. That is clarified by the previous column, which acknowledges that the decision on SNH was of a different order.

Susan Deacon: Reference has been made to the number of staff who left the organisation and the cost associated with that. For the record, and so that we are all crystal clear, do you have a precise figure for the number of people who did not relocate from Edinburgh to Inverness? How does the figure compare with the earlier predictions of the number of staff who would not move?

Richard Wakeford: The original forecast was 136. In the event, the number of people who did not relocate was 102.

I do not know whether it will help the committee if I mention a further factor that is relevant to future relocations, although not to the relocation of SNH. There is now an opportunity for staff of specified NDPBs who find themselves without a post to transfer to the Scottish Executive without having to apply in an external competition. In other words, provided that there are opportunities in relevant Scottish Executive offices, we can now offer employment to people who, under the SNH change, had no such opportunity.

Susan Deacon: I am aware of that point and I agree that it is important.

You confirmed that 102 people chose not to relocate to Inverness. How many people did relocate?

Richard Wakeford: Fifty-five, compared with a forecast of 36.

Susan Deacon: Can you provide any additional information on those former members of staff? Obviously, I do not seek information from which individuals could be identified, but it would be helpful to know what level of skills and experience the organisation had to replace.

Richard Wakeford: I will provide you with a note about that.

Susan Deacon: Thank you.

I seek further clarification on costs. The appendix that you mentioned states that the cost associated with the move to Inverness was £20.692 million, and £20.856 million after revision. Have I selected the right numbers? Please correct me if I have not. There are a lot of numbers in the papers.

Richard Wakeford: The figure that was relevant when the decisions were taken is the second one that you mentioned—£20.856 million, which is a revised net present value with a 3.5 per cent discount rate over a 30-year period covering property, travel and staff transfer costs.

Susan Deacon: You said that that is the figure that was relevant when the decision was taken. Can you give a date for that?

Richard Wakeford: March 2003.

Susan Deacon: So, in March 2003, at the point at which the accountable officer said that the relocation would not represent value for money, the cost was estimated to be £20.856 million.

Richard Wakeford: That is the net present value that was used in the analysis. I need to be careful here, because the costs are a very different thing.

Susan Deacon: I understand that.

In response to a question that I asked in the chamber on 5 June 2003, the then Deputy Minister for Environment and Rural Development said:

“Over a 30-year period, the move to Inverness will cost, in net present value terms, somewhere in the region of £22 million.”—[*Official Report*, 5 June 2003; c 488.]

Does that indicate that there was an increase in the estimate over a period of time, or was there just a rounding up of the figures?

Richard Wakeford: You have me at a disadvantage there. I will have to look at the file

and see whether I can understand why that figure is different.

Susan Deacon: I would be grateful for that.

Finally, can you tell us the current figure for the actual cost to date and the projected cost over 30 years? I seek the comparable figures to those that we have just discussed.

Richard Wakeford: No. It is simply not possible to do that. After the decision was taken, SNH was asked to put together a project plan to deliver the decision that the minister had taken, with due attention to economy, efficiency and effectiveness. A project plan came in for us to approve and my predecessor's job was to ensure that the mechanisms in place to deliver the plan could give him assurances that all those things were covered properly.

At not quite the end of the process, I have an analysis that compares the original costs of that project plan with how they turned out. One of the reasons why we cannot give you a complete answer at this stage is that there are still some unknowns. One of the most significant unknowns is the disposal proceeds from the Hope Terrace building, which in the project plan were estimated to be £1.9 million. They will depend on the planning brief that consultants and SNH work up before they dispose of the property.

Susan Deacon: Can you give us a broad indication of whether the comparator figure will be greater or less than the estimate at the point at which the decision was taken?

Richard Wakeford: The best way that I can preface this is to say that we are dealing with different currency systems. Having read through the file, my judgment is that the relocation has been achieved at less cost than was estimated. A number of factors are involved. One is the fact that fewer people had to be made redundant. Another is that the building was procured advantageously. On the slice of the project that has taken place, SNH has provided me with a project plan that shows that excellent use has been made of the budget available. We are not at the end of the process yet and that is not an evaluation. At the time that the decision was made, no estimate was made of the travel consequences, given that SNH operates around Scotland. The costs of travel and how many people will travel to Inverness—and from where—will settle down over time. There are a number of unknowns about which it would be wrong to make a judgment at the moment.

Susan Deacon: I appreciate that there are certain unknowns at the moment, but it would be helpful if we could be furnished with further information on that point before our meeting with the minister in the new year. There are a range of different totals in the public domain, including the

figure given in the Audit Scotland report. It would be in everybody's interest for us to have as good a handle on the figures as possible.

Richard Wakeford: I am sure that, given the professional background of my minister, he will be happy to present you with the various accounting bases.

Susan Deacon: I am sure.

Robin Harper: In your evidence you said that when the minister came to his decision, he used different weightings to the weightings used by the accountable officer. I presume that there was no previous agreement between the minister and the department on how the weightings would be valued. Is that routine?

Richard Wakeford: As a senior civil servant for many years, I have found that there are certain things that one can put into currency terms, on the basis of assumptions, and certain things that one cannot. One therefore has to make judgments about how material those things are to decisions. In the field of the environment in particular, that is very tricky, as you know. I do not want to sound like Donald Rumsfeld, but there were a lot of things that were known and some other things against which it was more difficult to place figures. As I indicated, there are also some other things that were not expected at the time but which have come out from relocation, including the change in SNH management.

I was not trying to be anywhere near as sophisticated as was mentioned. I was trying to explain that, when accountable officers are operating under the clear instructions that they have, they have to make judgments by putting certain weights on certain factors. They start from the position of the general policy of the Government of the time, but it would be a strange world in which the judgments reached by an accountable officer were always followed through when the minister considered them. I am saying simply that the accountable officer at the time reached one conclusion based on some of the relatively less tangible factors and ministers collectively reached a different conclusion.

The Convener: That exhausts our questions, and I thank Sir John and his team for coming today. It has been most helpful. As usual, we will want to follow up a number of points, and we will write to you about them once we have seen the *Official Report*. Thank you for your time.

That ends item 5, and we will move into private session for items 6 and 7.

12:46

Meeting continued in private until 13:06.

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