

FINANCE COMMITTEE

Tuesday 14 June 2005

Session 2

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CONTENTS

Tuesday 14 June 2005

Col.

ITEMS IN PRIVATE.....	2665
EFFICIENT GOVERNMENT	2666
BUDGET PROCESS 2006-07	2694
DEPRIVATION SPENDING INQUIRY	2695

FINANCE COMMITTEE

16th Meeting 2005, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

Alasdair Morgan (South of Scotland) (SNP)

COMMITTEE MEMBERS

*Ms Wendy Alexander (Paisley North) (Lab)

*Mr Andrew Arbuckle (Mid Scotland and Fife) (LD)

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

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

John Swinburne (Central Scotland) (SSCUP)

COMMITTEE SUBSTITUTES

Gordon Jackson (Glasgow Govan) (Lab)

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

THE FOLLOWING GAVE EVIDENCE:

Gary Devlin (Audit Scotland)

Caroline Gardner (Audit Scotland)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Judith Evans

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 6

Scottish Parliament

Finance Committee

Tuesday 14 June 2005

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

Items in Private

The Convener (Des McNulty): I welcome to the 16th meeting in 2005 of the Finance Committee the press, the public and our two witnesses, Caroline Gardner and Gary Devlin, who are with us for agenda item 2. I remind everyone to turn off all pagers and mobile phones. We have apologies from Alasdair Morgan and John Swinburne. Jim Mather is likely to arrive part way through the meeting.

The first item on our agenda is to consider whether to take in private agenda item 6, which is on our draft submission to the Westminster Public Administration Select Committee. I previously signalled that I would like us to consider the item in private. I propose that we take the matter in private this week and at our next meeting, should we need a further draft, which we may well do. Are members agreed?

Members indicated agreement.

The Convener: I also suggest that we take an approach paper on our proposed away day in private at next week's meeting. Are members agreed?

Members indicated agreement.

Efficient Government

10:03

The Convener: The second item on our agenda is further evidence taking on efficient government. At our previous meeting, members agreed that we would ask Audit Scotland to give evidence to us on its role in examining efficient government and on its findings on the efficiency technical notes. I am pleased to welcome Caroline Gardner, the deputy auditor general, and Gary Devlin, who is a senior manager with Audit Scotland. Members have before them a copy of Caroline Gardner's submission, which outlines Audit Scotland's role in the process. I propose to ask Caroline Gardner to make a brief opening statement, after which we will move on to questions from members. Is that procedure agreed?

Members indicated agreement.

The Convener: Caroline, thank you for coming along. I invite you to make a brief opening statement.

Caroline Gardner (Audit Scotland): We are grateful for the opportunity to meet the committee. Audit Scotland is committed to the success of the efficient government initiative and to working with public services to bring about continuous improvement in how they perform. It will probably be useful for members of the committee if I set out our role. Audit Scotland exists to provide services to the Auditor General for Scotland and to the Accounts Commission. Between us, we are responsible for the audit of more than 200 public bodies in Scotland, which now spend more than £26 billion a year.

Our auditors provide independent assurance on governance, financial stewardship and performance. Their reports are produced for audited bodies. In addition, we produce reports for the Accounts Commission and for the Auditor General about performance in the public domain. Our work is designed to support directly improvement in a wide range of public sector organisations.

Our submission to the committee sets out our involvement so far in the efficient government initiative. It is important to make it clear that our role covers the implementation of policy but does not extend to consideration of the merits of policy. Within those constraints, we will do our best to answer the committee's questions.

The Convener: Thank you. The letter that you sent to the Executive identifies areas where significant development of the efficiency technical notes is required. Those areas cover several headings, such as methodology, measurement,

risk assessment and third-party contributions. Will you comment on the significant development issues that you have highlighted? What are the most important focus points?

Caroline Gardner: Our view, which the Executive shares, is that the prime responsibility for monitoring the achievement of the efficiency savings must lie with the Executive. We can come alongside that and provide independent assurance—to this committee, for example—that that has been done.

To be able to carry out such monitoring, the Executive must have clear information about the baseline from which it is starting and a clear idea of what it plans to achieve in respect of activity and service levels as well as expenditure. The Executive must also be clear about how it will measure the changes so that it can demonstrate that efficiency savings have been achieved in practice.

The concerns that we set out in the letter that we sent to the Executive related to ensuring that the baseline and the framework for monitoring were in place so that we could provide some assurance on the process and, more important, so that the Executive could track what was being achieved by the range of bodies that are involved in delivering efficient government savings. Gary Devlin is happy to talk the committee through the sorts of concerns that we raised in our letter to the Executive and, since then, in discussions with it, if that would be helpful.

The Convener: That would be helpful. Before Gary Devlin comes in, however, I should mention that the committee has identified five information requirements for our scrutiny process. Would you like to comment on those five points?

Caroline Gardner: It might be more helpful for us to do that separately. We have not come prepared with an analysis of how the committee's comments match up with ours, but I know that there was a lot of common ground between the questions that were raised by your adviser, Professor Midwinter, and the concerns that we fed back to the Executive on issues such as the need for a common approach to baselines and clarity about what the efficiency savings mean for output and expenditure.

The Convener: It would be useful for the committee to receive in writing a note based on the five points that we highlighted. It is gratifying to hear that there is so much common ground between the points that you made and those that Arthur Midwinter identified on behalf of the committee.

Gary Devlin (Audit Scotland): The efficiency technical notes are not the be-all and end-all of the Executive's documentation on the efficient

government initiative. In due course, we expect all the ETNs to be supported by delivery plans, which we hope will give a lot more detail. We expect that those plans will answer many of the concerns that we have raised in our letter about baseline measurement and so on. The ETNs were all that we in Audit Scotland had in front of us to comment on as a means of measuring and monitoring the savings. We hope that in due course the Executive will answer many of our points. Obviously, we have had a detailed discussion with the Executive about some of the issues and how it might take them forward.

I will comment on a few of the more specific issues that underlie the letter that we sent to the Executive. The first is the baseline, which the Executive has said is the 2004-05 budget. Professor Midwinter has raised with the committee the issue of monitoring savings against a baseline such as a budget. Budgets are set for reasons other than for monitoring efficiency and one problem with using them as a baseline is that there may be timing issues. Something might be in a budget one year that is not in it another year. Similarly, it is difficult effectively to monitor savings against the budget if there has been an underspend or if there has been slack.

Finally and perhaps most important, budgets that simply give a financial measure do not tell us about inputs and outputs in relation to specific areas. We cannot measure efficiency simply by considering cost; other areas must be considered. The ETNs indicated savings but did not say how the savings had been calculated. Unless there is a detailed analysis of a saving, it is difficult to reach a conclusion about whether the saving is reasonable or has been double counted, for example. We had a problem with that. We could not identify measurement systems in the ETNs. We know from our work in Audit Scotland that the public sector in general has some way to go in developing its performance measurement systems. A key point is how systems will be developed for measuring inputs and, more important, outputs, which will indicate whether the efficiency was delivered.

Ms Wendy Alexander (Paisley North) (Lab):

The area is complex, as all of us who have struggled with it during the past year know. The committee's job is not to police individual savings but to ensure that the process is robust and transparent. Bob Black, the Auditor General for Scotland, has said that Audit Scotland is in discussions with the Executive about the future arrangements that would allow it to audit delivery, as Caroline Gardner indicated. He said that, if Audit Scotland is to be able to provide an assurance, the Executive must provide a clear statement of what has been achieved and how the achievement relates to the efficient government

commitments, which must be in a form that can be audited. You have been in discussions since February and it is now June. When and how will such a statement emerge? Has agreement been reached on the statement that must be in a form that can be audited? If not, when might we anticipate that happening?

Caroline Gardner: You are right to say that the area is complex. I think that it has been more complex for the Executive than it has been for us, for obvious reasons. The first step for us was to ensure that the Executive had put in place a framework whereby it could monitor the way in which savings were being achieved over the period of the plan. The ETNs represented the starting point of that process and we hope that our comments and those of the committee will help the Executive to move on and put the framework in place. On the assumption that that will be finalised, we have been in discussion about a system in which the accountable officers will be asked to produce an efficiency statement setting out what they have done in relation to the commitments in the plan that are supported by the ETNs. Those statements will provide a basis on which auditors can conduct a review and give assurances. Such statements would be similar to the controls assurance and financial statements with which our auditors work all the time.

Ms Alexander: I note that you attach no timetable to that process, which is fair enough.

The ETNs relate only to the cash-releasing savings, which represent around 50 per cent of the total savings. We have received no information on the other half of the savings, which are time-releasing savings—we do not even have efficiency technical notes on them. Therefore, we must focus on the cash-releasing savings. You say that you are in discussion with accountable officers about statements that they will produce. That differs from what the committee has been told, which is that an annual report will be published in June 2006. I do not think that there has been any mention to the committee of statements by individual accountable officers.

Caroline Gardner: Let me clarify that; I suspect that we are just using language slightly differently. The Executive's report will be based on the statements that I mentioned, which will be signed off by the accountable officers responsible for individual initiatives and will demonstrate the contribution of those initiatives to the plan as a whole. We will give our initial assurance at that stage. If an accountable officer has signed up to a technical note that says that savings of £20 million will be achieved, they will be asked to provide a statement that identifies what they have done and the changes in expenditure and outputs, which the auditors can consider. You are right to say that we

are currently talking about the cash-releasing savings only.

10:15

Ms Alexander: When do you anticipate that the ETNs will be signed off, to allow the process to go ahead and be reported on in a year's time?

Caroline Gardner: We are close to agreeing the framework. We received and commented on a couple of drafts from the Executive and we identified areas that need to be more tightly stated or that might require additional information. That work should be done within the next few weeks. Our expectation is that the statements will be produced annually at the end of the financial year and signed off by the accountable officers, so that there is a basis on which the Executive can report on progress overall and on which auditors can provide an assurance about the quality of the information that goes into the Executive's report.

Ms Alexander: When and how will the baseline be made public?

Caroline Gardner: The baseline needs to come through the process of developing the ETNs, which is currently under way, to ensure that ambiguities are ironed out and that everyone is clear about what each commitment is there to do.

Ms Alexander: Will the revised ETNs be published, so that the baseline is publicly known in advance of the report on progress that will be published in a year's time?

Caroline Gardner: Perhaps you should direct that question to the Executive, but our view is that the process will be more transparent for everyone who is involved if as much information as possible is in the public domain.

Ms Alexander: I presume that some targets in the ETNs are too ambitious and might not be achievable. You have been involved in the detail of a couple of those: are the revised ETNs likely to contain figures that are very different from the figures that were in the first ETNs that we received? Will some departmental figures be lower and some higher as a result of the process of auditing the baseline?

Caroline Gardner: Our primary concern is to ensure that the notes are more specific about what the efficiency saving means. For example, as Gary Devlin said, if an ETN currently refers to budget reductions, we want the revised note to refer specifically to the reduction in expenditure and the maintenance of service levels and quality. If current funding levels are to be maintained, we need specific information about increased service activity and improved quality. As the ETNs are refined, there might be changes in the sums of money that are involved. In our letter to the

Executive, we said that it is not apparent to us that the risk assessment to ensure that savings can be achieved has been fully worked through, although that is a different issue.

Ms Alexander: As you know, much discussion took place in the committee about what constitutes an efficiency saving and about the fact that there is no common definition. Are you interested in whether the conventions that are adopted in Scotland are comparable to those that your sister body, the National Audit Office, operates in the rest of the United Kingdom? Are different definitions likely to be maintained?

Caroline Gardner: In our discussions with the Executive, we made it clear that efficiency ought simply to mean the relationship between inputs and outputs. Input and output can change, but we want to achieve a better ratio of one to the other through efficiency. You mentioned the time-releasing savings, which are difficult to measure. We do not expect to find a crude way of putting all savings into the same box; we want to be able to say either that the inputs remained the same and the amount of service increased or that service remained the same and reduced inputs were required. That is the ratio on which we are focusing.

Ms Alexander: I want to focus on the cash-releasing savings. Nothing has been published on the time-releasing savings, so nobody can comment on those—perhaps you can comment, but the committee cannot do so. On the definition and the ratio of input to output, can you give an assurance that the criteria for what constitutes an efficiency saving are the same in Scotland as those that are applied by your sister body south of the border? Is the meaning of “efficiency saving” different in the two jurisdictions, which means that different figures will emerge?

Caroline Gardner: At that high level, the audit organisations across the UK focus on the ratio of input to output. However, we must remain sensitive to the fact that, in different areas of service, efficiency savings might be interpreted or rolled out in different ways.

Mr Frank McAveety (Glasgow Shettleston) (Lab): If you could travel back in time, say six months or a year, what would you say should be done? What key action should have been taken that would have allowed you to make a more positive contribution today?

Caroline Gardner: We are doing our best to make a positive contribution to the efficient government initiative. We seek a good framework that is clear about the way in which efficiency savings will be generated. The framework must give a clear baseline for what is being delivered for the sums that are being spent, a clear rationale for

the scope for change and a clear picture of how the situation will look at the end of the process. There must also be a risk assessment that indicates that the saving can be achieved without damaging the quality or level of service that is available. Our comments to the Executive are designed to contribute to that.

Mr McAveety: Thank you for being positive. Two points in your comments on measurement stand out for me. Will you amplify them for us? You state:

“Some saving measures are not yet adequately specified”.

More worryingly, you say:

“More information is needed to remove the uncertainty about how and where some of the targeted gains will be realised”.

That is quite a systemic comment.

Caroline Gardner: It refers to specific technical notes or groupings of notes. Our concerns relate to the broader areas in which efficiencies have been identified—for example, the large savings that are due to come from local government and from procurement. A large amount of money has been targeted, but analysis of where the savings are coming from and how we will know in three years’ time that we are getting them is not apparent in the technical notes.

Mr McAveety: What are the best-case and worst-case scenarios?

Caroline Gardner: Are you referring to the amount of savings available?

Mr McAveety: Major savings have been identified in two core areas: procurement and local government. Some third-party organisations may be tuned into the process, but others may not be tuned in early enough to be able to justify the savings. If the process is run well, what is the likely direction of travel? If it is not, what is the likely outcome?

Caroline Gardner: We cannot provide that information. It is a question for the Executive, which must be clear about what it is monitoring savings against once the framework is in place, so that an audit can provide the committee and others with an assurance that the savings have been made in practice. That is the point of the question that we ask about risk assessment—how confident are people that the savings that are projected for the next three years are based on a sound analysis?

Mr McAveety: Other members may want to ask about the role of local government, so I will hold back from doing so. How local government will cope with the expected savings is a big issue.

The Convener: We will return to that issue.

Mr Ted Brocklebank (Mid Scotland and Fife)

(Con): I am still trying to get my head around the scope and extent of Audit Scotland's role. Did you say that you were in the business of implementing policy, rather than formulating it?

Caroline Gardner: Not quite. I meant to say that our role is to comment on the implementation of policy, not the merits of policy. That is a matter for the Executive.

Mr Brocklebank: Will you seek to identify areas where efficiency savings could be made that are not being made at the moment?

Caroline Gardner: Much of our work already has that focus. Inevitably, this evidence-taking session is focused on our role in the efficient government initiative, but we have a continuing role in auditing 200-plus public bodies and £26 billion of expenditure. In both the work that is reported to those bodies and the national reports that are reported to the Audit Committee of the Parliament, we consider areas in which there is scope for better use of resources. A recent example is the report on bowel cancer services that the Audit Committee considered, in which we were able to identify unused diagnostic capacity in hospitals. Better staff training would allow that to be used to get both more efficiency and better quality of service to patients. In our work across the piece, we have a track record of identifying where efficiency savings are possible. In this instance, our role has been to discuss with the Executive how we can provide an assurance that its plans for delivering efficiency are being achieved in practice.

Mr Brocklebank: If one department or non-departmental public body has targets for fewer efficiency savings than another, will Audit Scotland recommend areas in which additional savings are feasible?

Caroline Gardner: We may be in a position to do that. In the submission that we made to the committee, we spoke about the development of the integrated overview reports that we are producing. Those provide us with an opportunity to pull together all our work in an area and to identify areas in which we have found scope for additional savings or the provision of better-quality services. That reporting is done in public. In the case of all areas except local government it is done to the Parliament, whereas in the case of local government it is done to the Accounts Commission for Scotland. For example, we produce an annual overview report on the health service. We have examined the way in which the new money for pay modernisation has been used to ensure that we drive out efficiency and quality improvements, as well as increasing the salaries of professional staff in the national health service.

Mr Brocklebank: Is it conceivable that Audit Scotland might recommend an efficiency saving that it considers could assist the Executive to grow the economy or to close the opportunity gap?

Caroline Gardner: Recommendations of that sort would tend to come out of our themed reports on specific services to the public. A couple of years ago, we did some work on youth justice, in which we examined the large number of different budgets relating to the service and some of the difficulties in co-ordinating them. We identified scope both for greater efficiency and for increasing the likelihood of reducing reoffending by young offenders. That is part of our role and we can draw on a track record of work in such areas.

Mr Andrew Arbuckle (Mid Scotland and Fife)

(LD): Procurement is one area in which there are supposed to be efficiency savings, but with varying input and output prices, it will be difficult to measure real savings. Are you confident that you can get through the mist that may be created by lower purchase prices or increased sales prices?

Caroline Gardner: You are right to indicate that the exercise is not straightforward. That is why we believe that it is important for a clear baseline for savings to be set. If the ETNs start in the right place and include sufficient detail of what we are attempting to achieve, we can work through the complexities. In the information and communications technology world, there are good examples of people taking account of and making some adjustment for the fact that, generally, prices are falling as the computing power that is available increases.

We need to avoid falling into the trap of thinking that the exercise is an exact science and that in three years' time any of us will be able to point to a figure on a piece of paper and say that it has been achieved exactly as planned. Things are bound to shift as the real world changes. However, having a clear baseline gives us a much better chance of measuring savings and gives the Executive a much better chance of demonstrating what has been achieved through the efficient government initiative.

Mr Arbuckle: Does Audit Scotland have sufficient resources to carry out the work, which seems to be tacked on to its traditional audit role? Are you taking on extra people to ensure that the additional burden that has been placed on Audit Scotland is not causing time delays in the production of reports?

Caroline Gardner: It would be unfortunate if Audit Scotland started with the presumption that it needed additional resources to audit an efficient government initiative. As far as we can, we intend to use our existing audit processes to fulfil the commitment that has been made. That means

considering which auditors we appoint to the 200-odd bodies that are audited and how their audits pick up efficiency alongside the other key issues that face audited bodies. We must ensure that the statements on which auditors are asked to provide assurance are clear and readily auditable and that we use mechanisms such as overview reporting to put the results of that work into the public domain. We do not want to start a separate industry to audit efficiency if we can avoid it.

Mr Arbuckle: You mention putting information into the public domain. Audit Scotland is an independent body. Will all its advice to the Executive be published?

Caroline Gardner: From our perspective, it will. We work in public.

Dr Elaine Murray (Dumfries) (Lab): On the issue of the contribution of third parties, you state:

"The delivery of some significant efficiency gains will depend on third parties who may themselves face delivery and measurement challenges."

That includes bodies such as health boards and councils. In your audit role, you have carried out best-value audits of functions of councils and of councils themselves. The minister seemed to be fairly confident that, because local government has made significant savings in the past, it will be able to continue to make significant efficiency savings. Do you share that confidence?

Caroline Gardner: It is difficult for me to generalise. Councils across Scotland are very different organisations, facing different circumstances and with different track records in generating efficiency savings. It is inevitable that a council that has been conscientious over a long period in looking for opportunities to drive out efficiencies will find it more difficult to keep on doing that than one that is further back in the process and to which some more easily doable measures are still available.

That is why we say that, to support the overall figure for local government, there needs to be a dialogue to set out how efficiency savings will be achieved in individual circumstances. Our preference is for that to take place as part of the overall best-value discipline under which councils now work, where the breakdown between individual councils is explicit and signed up to. We are discussing with the Executive the application of the discipline of efficiency statements to local government as well as to Executive departments and bodies that are closer to them.

10:30

Dr Murray: We might face an ironic situation in which a council that has been efficient has to stop doing certain things or has to put up the council

tax in order to make efficiency savings. Is there a danger that the unitary authorities that have been efficient since their inception might find themselves the most challenged?

Caroline Gardner: There is obviously a theoretical danger of that. It is undoubtedly true that councils that have already taken out the easy areas for improvement will find it more difficult to take the next step on efficiencies. However, best value is absolutely based on the idea that things keep on changing. Service need changes and so do the ways in which it is possible to deliver services. Councils need to undertake a continuing process of examining what they do and how they organise it. We would like the efficient government initiative to be closely linked to best value and to local planning that takes account of local circumstances. That should be the next step in delivering the initiative.

Dr Murray: What about sharing best practice? Do you have a role in making bodies—particularly third parties—aware of best practice elsewhere?

Caroline Gardner: We hope that we do that in our continuing work, such as our public reports on best value in individual councils, our study reports and our overview reports. We are keen to identify good practice as well as areas that need improvement; we focus on things that are working well and things from which other people can learn, as well as on things that need to change. However, the public sector, collectively, could get better at identifying where things are going well and learning from that. In the case of local government, the new improvement service has a major role to play in putting people in touch with one another to identify where there are economies of scale in doing things jointly rather than reinventing the wheel.

Dr Murray: We are embarking on a series of visits to various organisations in connection with our inquiry. Some of the evidence from those organisations suggests that there has been little consultation with the people who are expected to make efficiency savings at the individual level, although there may have been more consultation at a collective level. Are you concerned about that? Have you had any dialogue with the Executive about the level of consultation with individual organisations?

Caroline Gardner: We have not had any dialogue specifically about the level of consultation. On risk assessment, our concern was to explore how far the commitments reflect a detailed understanding of where there are likely to be opportunities to make efficiencies without damaging the level or quality of service.

The Convener: I will pick up on your answer on sharing best practice and link it to a point that Ted

Brocklebank made earlier. If we consider the range of savings that the Executive has identified, some areas seem to have got off relatively lightly even though we might think that they present opportunities for savings that would arise from best practice. The universities sector is one such area, and transport—which has been mentioned already—is another. Does your knowledge and experience of best practice allow you to feed in suggestions to the Executive or to highlight opportunities for savings in areas that appear to be relatively exempt at present?

Caroline Gardner: That is one of those difficult questions in which the line between policy and implementation is grey; the matter is not black and white. We certainly have the opportunity in all our work, which is publicly reported, to point out to the Executive where there is scope for better efficiency or simply where there are questions to be answered. That is clearly demonstrated by some of our analysis of the health service in the past 12 months. We will develop such work through the integrated reporting that I mentioned earlier. That is certainly something that we have been discussing as part of our dialogue with the Executive about our role in providing assurance on the initiative. However, the initiative itself and the areas that it targets are matters for the Executive rather than for us.

The Convener: In your monitoring of local government and your reports on individual councils, you are not backward in coming forward to identify areas in which councils are underperforming. You demonstrate and quantify any such underperformance and you consider councils' relative performance. In that context, could you carry out a similar exercise and examine the departments and agencies that the Executive has or has not identified as being those in which savings can be made? Could you identify the most efficient performance and highlight other areas in which less weight is being given to the delivery of efficiencies?

Caroline Gardner: It is theoretically possible for us to do that, but a significant amount of work and information would be involved. That is the thinking behind our slice-by-slice approach to integrated reporting; we take an area that is relatively self-contained—such as the health service or, as we will do next year, transport—and we analyse the range of performance. We identify where there is evidence of varying performance or, at the very least, where there are questions to be answered. However, it is difficult for us to offer our view on where efficiency savings ought to be targeted because to do that would link closely with the policy objectives across the range of areas for which the Executive is responsible.

The Convener: I understand that you do not want to get into the process of policy identification.

I suppose that I am asking whether there could be a relatively rudimentary form of benchmarking that would enable you to identify, across the Executive, where there are processes that ensure that attention is given to the delivery of efficiency savings and where the most appropriate outcomes are being delivered.

Caroline Gardner: So far, we have approached the work policy area by policy area, starting with local government, health and transport. We are rolling that out across the rest of the piece, but we are not yet in a position to do that throughout the Executive.

Jim Mather (Highlands and Islands) (SNP): I am interested in the work on baselines and I am keen to find out whether you will audit the evolution and validity of the claimed savings, including those that are made by Scottish Water and local government. I am interested in the instructions to departments and quangos and the reasons for the movement since the initiative was first announced, particularly the netting-off of costs and depreciation. Audit Scotland's letter states:

"associated development costs are largely omitted from savings calculations".

That is entirely consistent with the evidence from the minister and from one or two of the quangos. Will the work on baselines include validity checking, evolutionary reporting and netting-down of the savings?

Caroline Gardner: We are clear that the baseline needs to be in place in order for us to be able to provide an assurance on what has been saved. We must be clear about the level of expenditure at the baseline, about what that expenditure achieved and about how it has changed, including in respect both of development costs and of savings that are generated. We fed that back to the Executive and we have been through a lengthy process of discussing individual efficiency technical notes and how they need to be developed. The Executive is now, as it should, taking responsibility for carrying out that work.

If, for any reason, it is not possible to put a baseline in place, we must say that when we comment on achievement of savings. We believe that it is in everyone's interest for the baseline to be as clear as possible, but we cannot compensate if it is not in place. That is why we are putting so much effort into the first step.

Jim Mather: I appreciate that answer, and I appreciate that we might be talking about a Gordian knot. I am therefore keen for there to be a plan B that says, "If we can't untie the Gordian knot and see clearly what has been happening, we should cut to the chase and focus on outcomes." I am particularly interested in the prospect of your putting some effort into asking what additional

outcomes the £731 million can buy us and whether those outcomes are valid and sensible, given that buying power.

Caroline Gardner: The starting point for that is, again, with the Executive. It should be planning for how it will capture the savings that are released and for how they will be reused. Some of that will happen at the level of individual agencies and organisations, but I guess that some of it will also be at a much higher Scottish Executive policy level. We can provide assurance that the planning for that and the framework to ensure that the process is transparent are the Executive's responsibility. The Executive accepts that.

Jim Mather: I hear your answer, but I am not entirely satisfied with it. If you were auditing a private business and an efficiency programme was under way, you would be able to examine what happened to the gross margin, to net earnings after tax, to the cash position, to value on the balance sheet, to the share price and so on. All we have to go on here in Scotland is outcomes. If we are to spend £731 million more effectively, is not it reasonable to say that we need to be able to audit the movement in outcomes?

Caroline Gardner: It is absolutely reasonable to say that. The situation that we and the Executive face is that the outcomes in the public sector tend to be more difficult to capture in single measures than is the case in a private company. Very often, we consider situations in which the needs of the public who use services have changed, the technology by which they are delivered has changed and the relationships between different bodies have changed.

Our current focus is on ensuring that we have the clearest possible framework for the Executive to demonstrate how it is redirecting money. We can use that framework to provide assurance that redirection has been done in the way to which the Executive committed itself.

Jim Mather: That is critical, because cynics have said that the savings will be what the Executive says they will be, which is not good enough. Given that we have savings to make in health of nearly a quarter of a billion pounds, surely it would be reasonable to be able to say what that has meant in terms of increased numbers of operations and so on.

Caroline Gardner: That is entirely reasonable. The point that I was trying to make is that first, it is the Executive's responsibility to do that, and secondly, that the situation in terms of public services is more complex than is the case in most private organisations because one cannot boil everything down to financial performance—there is a range of outputs. However, I absolutely share your concern that we should be as transparent as

possible about what has changed and where the new resource has been used.

Ms Alexander: I want to follow up one of the high-level areas that the convener pursued. As the witnesses know, local government accounts for 35 per cent of the Scottish departmental expenditure limit, yet local government is being asked for 49 per cent of the savings—I base those figures on the efficient government document, although they have altered slightly as a result of the publication of the efficiency technical notes. Can you give any guidance as to why local government is being asked for a 40 per cent higher saving than the Executive is asking of its own departments?

Caroline Gardner: I am afraid that I cannot comment; that is a question for the Executive.

Ms Alexander: The main difference between the efficient government document that we got in December and the efficiency technical notes is that the anticipated savings in health have risen by 50 per cent. It might surprise many people that we are looking to the health budget for £83 million more of savings. What accounts for that 50 per cent rise in the savings that are being asked of the health service?

Caroline Gardner: Our understanding is that the increase reflects the evolutionary process of the production of efficiency technical notes, after examination of what lies beneath the surface of the assumptions behind them and of the links between them, and the carrying out of the risk assessment. However, on specific movements and why they became apparent later, that is another question for the Executive.

Ms Alexander: That increase accounts for virtually the entire uplift of what was planned in December and what is now—

Gary Devlin: Broadly speaking, the increase has occurred in two areas. I think that one relates to the introduction of the new ETN for drugs pricing, although I will have to check my notes on that, and the other area concerns general efficiencies for the national health service as a whole. Between them, they accounted for increases of roughly £80 million in savings, but I will have to check my notes for the detail.

Ms Alexander: You indicated helpfully that the revised baseline, in the form of the revised efficiency technical notes on the cash-releasing savings, should be published. Have you made that view known to the Executive?

Caroline Gardner: Yes.

10:45

Ms Alexander: My other question is about the other 50 per cent of savings—the time-releasing savings. We are now 10 weeks into the period in

which the savings are meant to be taking place, but we do not even have a draft framework of what the savings look like. That sets an interesting example to other public sector organisations. Has Audit Scotland seen efficiency technical notes for the time-releasing savings?

Caroline Gardner: No. We have agreed to follow a similar process to that which is used for the cash-releasing savings, whereby we will comment on the time-releasing efficiency technical notes to ensure—

Ms Alexander: Will you do that once the ETNs are published?

Caroline Gardner: No, we will do that before publication to ensure that they provide a decent framework for monitoring achievement of savings. We have not yet seen them, but we will comment on them as they become available.

Ms Alexander: How long will it take you to comment? If you have not received the notes and you need time to consider them, how many weeks or months into the period in which the savings are meant to be made are we likely to be before the draft is published? I presume that the baseline will need to be assessed then—or will you adopt a different process of assessing the ETNs in advance?

Caroline Gardner: Our intention this time is to comment on the ETNs to the Executive before they are published so that it has the chance to take account of our comments before the ETNs are in the public domain. We expect the efficiency technical notes to start coming through to us soon and we have made a commitment to turn them around as quickly as possible.

Our experience has grown with the Executive's by virtue of our having gone through the process for the cash-releasing savings. However, the efficiency technical notes are complex vehicles and we will take whatever time is needed to give a professional view of whether the notes are fit for their intended purpose.

Ms Alexander: For comparison, will you say how long it took you to comment on the cash-releasing savings efficiency technical notes? I understand that you took receipt of them in March and published your comments in May.

Caroline Gardner: That is right—we published our comments in early May. I expect the process to take a little less time because of the experience that we have gained. However, we also need to take account of the fact that the time-releasing savings notes might be more complex than the cash-releasing notes.

Ms Alexander: So, if the notes were to arrive with you tomorrow on 15 June, taking account of the summer recess, we would be looking to receive your comments in mid August.

Caroline Gardner: It is hard to be specific, but I hope that we could turn things round more quickly than that. It is our intention to do that more quickly than we did with the first batch, so we are talking about July.

Ms Alexander: Is it optimal that we have ended up with two sets of efficiency technical notes for every department in Scotland, whereas there has been just one set for departments in England and they were published six months in advance of the period in which the savings were meant to be made? Is it good audit practice to be six months into the period that is under consideration before agreeing the baseline?

Caroline Gardner: I am sorry to sound unhelpful, but the first question is obviously a question for the Executive. We would prefer in most circumstances to have clarity about what budget holders are being asked to do before the financial year starts, but the process that we are discussing started in the previous financial year and is complex. You will have to ask the Executive about the underlying reasons.

Dr Murray: I come back to the comments that you made about the risk of double counting some efficiency gains. First, where is that risk? Are there particular budget lines for which that risk exists, perhaps where organisations work together and both claim that they have made the same efficiency gain?

Caroline Gardner: That probably concerns the areas to which you referred earlier, in which third-party bodies are responsible for delivering the savings. For example, there is in local government a general local government savings commitment. There is also one for procurement and another for supporting people. Gary Devlin might have specific examples.

Gary Devlin: The risk largely concerned the procurement initiative, as Caroline Gardner mentioned. There are some general and some specific examples and we wanted assurance that there would be no double counting in those cases. The Executive said that it was alert to concerns in respect of all the areas about which we asked questions, and it was already double checking to ensure that there had been no double counting. We did not identify double counting; we identified just the risk that it might happen.

Caroline Gardner also mentioned general versus specific ETNs for local government and health. General ETNs concern general efficiency savings and specific notes mention areas such as drug pricing or procurement. One of the other areas in which we felt there was some risk of double counting was in drugs pricing in health versus improved prescribing. We want to know where one leaves off and the other starts.

Dr Murray: You also mentioned that associated development costs are largely omitted from savings calculations.

I believe that there is an efficient government fund to which third parties can make bids. The bids must be for savings of at least £1 million, however. It has been suggested that that could be too high a minimum because it might not be applicable to smaller partnerships and it might not allow smaller savings to be made. Many smaller savings can add up to a larger saving, of course. Have you had discussions with the Executive about the efficient government fund in that context?

Caroline Gardner: That has not been a major area of discussion for us. Our concern has instead been that, when savings are identified, the full cost of achieving those savings should also be in the mixture.

Jim Mather: Recently, the Finance Committee heard a pretty galvanising presentation from Sir Michael—I mean Professor Michael Barber. I was inflating his status and probably anticipating his promotion at some point. In any case, Professor Barber took us through the methodologies that are used by the Prime Minister's delivery unit down south. I was intrigued by that unit's heavy emphasis on trajectories and examination of performance along given paths. Do you anticipate that that should be the case in efficient government? Should there be trajectories for savings, rather than just a hoped-for outturn to generate the numbers, and a promise at the outset?

The Convener: I think that Jim Mather was right the first time: Professor Barber did receive a knighthood in the recent birthday honours list.

Jim Mather: Well, there we go.

Caroline Gardner: Our discussions with the Executive have been focused on the language of milestones. We would like to see milestones along the way, which the Executive expects people who are tasked with achieving efficiency savings to reach, because that will make monitoring more straightforward and because there is a risk of all the savings piling up in the third year, with a much more significant impact.

The Convener: I have a question about methods. Jim Mather was speaking about Michael Barber's presentation. One of the interesting points that he raised was about the audit process, which takes a considerable time. At what point do you know what 90 per cent of your audit will say? Michael Barber's estimate is that 90 per cent of what will be said is known after a month or two. In this exercise, you are having to do a different kind of work from the traditional audit, which is done over an extended period and which,

organisationally, focuses on outcomes. What you are doing is the short audit to which Michael Barber referred. Is that a challenging process for you? Are there issues for Audit Scotland in that regard?

Caroline Gardner: There are real issues. Audit Scotland is keen to produce its findings as quickly as possible, so that they are relevant and up to date, and so that people can act on them and improvements can be achieved. We recognise what Sir Michael Barber said about knowing early in a study what the key messages will be. There is an important difference, however, between the delivery unit's working that way as part of the process of government and our doing that as independent commentators on the process. It is unarguable that the evidence that we produce is much more likely to be contested than that which is produced in an internal management process.

Much of the time that we spend on an audit or study is about generating evidence to support a conclusion that we might have reached only tentatively much earlier in the process. It is about ensuring that we can defend our findings and demonstrate that they are robust to people who might have different views or interests in the process. It is not quite a straightforward comparison, but we are doing everything that we can to speed up the process. We have been seeing that with the efficient government initiative; we are agreeing what we do in real time, rather than—as we would normally do—having to take time up front to get matters specified before work is started.

The Convener: I would like to ask you about the process within the Executive. The Executive is having to learn to do new things at the same time as you are. Do you have any comments about the manner in which the Executive has gone about setting up the efficient government unit and about how the unit is acting in relation to departmental sectors? That is a process question, rather than a question about delivery of changes.

Caroline Gardner: I have a couple of general comments. First, we all know that this is a very complex area and that it is difficult to get it right. That difficulty is increased because of the complexity of the public sector in Scotland, with the range of services that people are trying to deliver and the number of bodies that are involved in that. It was never going to be a straightforward exercise. Our aim is to be helpful by contributing to the process as it evolves, rather than stepping back and observing where government bodies might have started from in a perfect world. Our focus is on developing the process in a way that provides a base for generating efficiency savings.

Our other concern is to ensure that we can see efficient government in the context of all the other

policy objectives that the Executive is trying to achieve. That might include ensuring that best value and efficient government, which are closely related, work together. It might mean examining how services are having to develop in order to meet the changing needs of the population and the different aspirations for how schools might work and fit into their communities. It could also involve community planning. There is obviously scope for tension between the different objectives, so we are keen to ensure as far as possible that they are seen in a coherent and joined-up way.

The Convener: You pointed out at the start that the thrust of your comments has essentially been along the same lines as those which formed part of Professor Midwinter's advice to the committee. Did you identify any points of variation between the approach that you had highlighted and the general findings, on the one hand, and the findings that we had received previously, on the other?

Caroline Gardner: I do not think so. Any differences were of language, rather than content.

The Convener: There are no further questions. On behalf of the committee, I thank you very much for coming along and for responding to our questions. This subject will be a focus for us for a considerable time, so we might seek further information from you in the future, either in writing or by way of more oral evidence.

Caroline Gardner: Thank you, convener. We would be happy to do that.

The Convener: Next, and still under the heading of efficient government, we will hear brief reports on the site visits that members undertook last week. Jim Mather and I went to VisitScotland, and Alasdair Morgan, Andrew Arbuckle, Ted Brocklebank, Elaine Murray and Arthur Midwinter all went to Forth Valley NHS Board and Stirling Council. The purpose of the visits was to try to find out how organisations intend to make efficiency savings on the ground, and how they intend to monitor them and ensure that they are redirected to front-line services. I should add that there is a programme of visits next week, so we are just part of the way through the process. I will report back on my and Jim Mather's visit to VisitScotland, after which Andrew Arbuckle will report on the visits to the other organisations.

I will mention the chief findings from our visit. Both Jim Mather and I were quite impressed with the efforts that VisitScotland is making to develop its activities as an organisation and to incorporate the efficiency process into that. VisitScotland very much views the process as a business remodelling exercise and sees the challenges of efficient government not as a burden but as a potential opportunity to deal with problems.

VisitScotland is somewhat unusual for a public sector body, in that it generates income through its

activities and operates to a significant degree on a profit-and-loss basis. It is argued that that leads to a more focused approach to efficiency savings, as well as to better measurement. It was put to us that, unlike in local government, VisitScotland's efficiency savings are recycled elsewhere in the organisation, which it sees as an advantage. VisitScotland had sought to learn from other organisations that have undergone significant structural change, for example Scottish Enterprise.

It was observed, however, that there is no set measurement process or standard reporting mechanism, nor are there tools to assist organisations to scrutinise their activities. There was a view that such a tool might be helpful. The absence of such processes, mechanisms or tools could lead to inefficiency because each organisation or department develops its own processes for generating efficiency. Although we recognise that different areas might have different requirements, some guidance on generic areas of work could be helpful. That could be developed in the future, which would allow best practice to spread throughout the public sector as efficiency reviews are carried out.

11:00

The question arose of the extent to which efficiency savings have been influenced by the fact that VisitScotland is very new. A business transformation process was taking place as a result of the merger of the former area tourist boards with the central VisitScotland body, the intention of which was to improve the culture. Because of that, it was difficult to ascertain what the efficient government exercise was adding to what had happened to VisitScotland and whether it would be easy to capture the full extent of the improvement savings. The view was that the efficient government exercise might be harvesting savings and improvements that were already in the VisitScotland plan.

That said, I think that we need to focus measurements of success on deliverables rather than on the process. For example, the opportunity costs of partnership working can be high, so it is important to keep the process of partnership working under scrutiny to ensure that partnership itself or the management of partnership, rather than delivery of an organisation's focus, does not become the objective.

Having gathered those findings, we gained a good insight into how VisitScotland is managing the process of developing efficiency savings. It appeared to see that not as a negative exercise, but as a positive exercise that it was trying to integrate into its business transformation project.

Jim Mather and I would be happy to take questions about that visit, but as members appear

to have no questions, we will move on to Andrew Arbuckle.

Mr Arbuckle: The two organisations that we visited appeared to be tightly run. Like the organisation that the convener visited, both bodies already operate with efficiency targets and both have made efficiencies in their operations for some time. To them, the policy behind the efficient government initiative is not new.

The two bodies that we visited in Stirling are not coterminous with other public service providers in the area, but they work with other bodies and are considering an extension of such partnerships to improve service delivery and to effect further economies.

We examined several issues that relate to Forth Valley NHS Board. We were told that the board believed that, through e-procurement, it could save between £2 million and £2.5 million annually from a £300 million-plus budget. When questioned about how that could be measured, given fluctuations in product prices, the board reckoned that it could do that by comparing the new management systems with the old purchasing method. The board was also questioned on how e-procurement would affect local firms. It said that some small local firms were on its purchasing list but it admitted that tensions could arise between local and national businesses under the new scheme. The health board could see no further benefits from linking its purchasing with that of other public bodies, because many of its requirements are specialised.

We also studied drug procurement. The system that the health board uses appears to work efficiently, despite the complexities and the unpredictability of new drugs coming on to the market.

The health board takes a proactive approach to the difficult problem of inappropriate admissions. The main benefits in that would arise in more efficient management rather than purely in cash terms. As for overall savings, the board has an increased budget this year and has factored in savings targets, so it is arguable that it may be extremely difficult to identify easily proof on the latest Executive targets.

We examined how Stirling Council has adapted since local authorities were reorganised. To anybody who has not been involved in local government, the changes will be startling. The council has reduced the number of departments, achieved better interdepartmental working and reduced the number of committees, and it shares facilities. All those measures were initiated to make savings. Stirling Council believes that it can meet the target that has been set for local authorities of saving 2 per cent of its budget, which

will help to meet the overall local government target of saving £168 million.

However, the council said that because it has travelled down the savings road for several years, it has become more difficult to make savings year on year. It was pointed out that all the fat has been removed from the local government body. A crunch point was that redundancy costs cannot be funded from the efficient government fund.

Despite the Gershon split between front-office and back-office expenditure and priorities, the view was that bigger efficiency savings could be made in the front line in the future through working with other departments and other public bodies.

The council questioned whether it could achieve further savings in procurement. It co-operates with neighbouring smaller local authorities to purchase goods, which produces some savings. The council is concerned about the cost of adopting e-procurement.

We saw two well-run organisations—it might have been more instructive to meet one that was less well organised. Some of the organisations' thoughts might be ahead of Government thinking, although I am perhaps not allowed to say that.

The Convener: Do members have questions for Andrew Arbuckle or other members of the visiting team? Having been out in the field, do members wish to make additional comments?

Professor Arthur Midwinter (Adviser): The visits were extremely useful, mainly because they showed the gap between theory and practice and how the officials whom we met probed the assumptions that were placed on them. For example, we asked one body whether the assumption that £40 million of savings could arise from the efficient government fund was realistic and the answer was that it was understood that not a penny had been allocated, so without knowing the projects, how could the savings be assumed?

The way in which the bodies considered some savings made it clear that, by definition, they were economies rather than efficiencies. The bodies would make economies and meet their targets, but efficiencies might not necessarily be achieved.

Confusion was felt about the targets. The NHS board told us that the 1 per cent efficiency gain had been taken from its budget, but the Executive advised us the following day that that was not the case. Stirling Council was unhappy about the imposition of the targets after what it considered to be little consultation and because it felt that local authorities had had a bigger share of such exercises in the past and were being asked to undertake another.

Mr Brocklebank: Stirling Council felt that the only way in which it could make its efficiencies or savings—we can call them whatever we like—would be by having fewer people.

Professor Midwinter: In the long run.

Mr Brocklebank: The council had already gone down that road, so it could imagine a situation in which that would have an inevitable impact on services. People cannot continue to be taken out of the equation without there being an ultimate impact on services. That was fair.

Dr Murray: Another issue that arose from meeting the health board and the council was that one organisation may make a saving as a result of someone else's expenditure. For example, inappropriate admissions to hospital might be prevented if council social services spent more to support people at home. A joined-up approach is not taken to making savings in the round.

Ms Alexander: I want to raise a couple of related points on local government and health that arise from Arthur Midwinter's notes.

The Convener: We have not moved on to those yet.

Ms Alexander: That is fine. If you are coming back to them, I will hold on.

Jim Mather: On procurement, I am concerned that orders may be placed outwith council areas, or even outwith Scotland, which could have a perverse effect on economic growth. I also worry that procurement savings may be made by raising orders to a particular level while ignoring stockholding costs. Traditionally, stockholding costs are 10 per cent of the asset value over the piece, which erodes any possible saving.

The Convener: It might be worth drawing a line under the comments at this point, because we have a second round of visits to come. Arthur Midwinter's point is important. The issues can be discussed on the basis of a paper exercise or by having ministers and officials in front of the committee for long periods of time, but it is not until we get out and speak to the people who manage the process that we begin to understand how it can be taken forward. I thank the organisations that we have dealt with thus far. After next week's visits, we can take a more integrated view on how to take issues forward and which issues we want to address.

We can now consider Arthur Midwinter's paper. At our last meeting, we asked him to produce tables showing the total efficiency savings from the efficiency technical notes compared with the total in the efficient government plan. We also asked him to show the savings on a departmental basis. He has provided a comprehensive summary for us in tabular form, which I am sure will please

Jim Mather, if no one else. Are there any questions?

Ms Alexander: I thank Arthur Midwinter. This has been a good morning. The paper is a good summary of the current position. Since December's "Building a Better Scotland" document—hitherto most of our documentation has been based on that—there has been a significant change to the technical efficiency notes. The document points out that the entirety of the change is represented by health.

I have two small follow-up questions. First, asking for £83 million more from the health budget changes Arthur Midwinter's previous note on how much was being asked of local government. Could you provide us with a one-page addendum on local government efficiency, saying that it was asked for 49 per cent of the savings when the figure is 35 per cent? I suspect that it was asked for 35 per cent but is now being asked for 40 per cent. An addendum would be hugely helpful, so that we do not quote the wrong statistics.

You probably understand my second point, but I have just caught up. We know that £90 million more is coming from health, and that local government has had its savings deducted directly from the budget, but we have just heard that health boards are unclear whether savings are being deducted at source from their budgets. In your note on the local government contribution, could you add a little bit on where that extra £90 million is coming from in health? That may involve some of your note from 24 May. So far as we know, the sum is to be deducted at source, but is it being accounted for board by board? It is the only significant change on the cash side of things since the figures that we had in December.

Professor Midwinter: I would need to pursue your second point with officials, because we have never had any information on how the £166 million figure was composed—it was just the line. I understand that the Executive went for health because the sector suggested that it could make all its savings in year 1, so the minister pursued it for savings in years 2 and 3. We have not received a breakdown of the £166 million in previous papers, but I am sure that we could get one. We are corresponding with officials about the 1 per cent.

11:15

Ms Alexander: How much of the £248 million that is being asked for from health is being retained in health board budgets, or is it coming back to the centre for redistribution?

Professor Midwinter: We are trying to clarify that as a result of the meeting in Stirling. Part of the problem is the way in which the information

has been presented. First, the figures were called targets, so we assumed that they were targets to be achieved. Then they were announced in "Building a Better Scotland—Spending Proposals 2005-2008: Enterprise, Opportunity, Fairness", and it was said that some of them had already been reallocated. We are trying to get a precise statement from officials of which sums have been cash reductions and redistributed to other areas.

I thought that the 1 per cent—the £90 million—was such an example and that it had been taken off the health baseline. The word that we are getting is that it has not been taken off the baseline, whereas officials in health boards think that it has been. They assumed in their planning that 1 per cent would be taken off; that is why they had the figures for us on how they were going to save 1 per cent. Such confusion needs to be cleared up. First, we need to get a list of the budget reductions showing where the line has been reduced and the cash has been redistributed. Secondly, there is the question of the savings that Audit Scotland will be able to audit; the assumption is that the department will redistribute that money.

Ms Alexander: We are 10 weeks into the financial year, and this year there are supposed to be cash savings of £166 million. We need to discover whether that £166 million is being deducted from health board budgets and reallocated elsewhere, or whether health boards are being told to hold on to it and spend it on other aspects of their services. It is big money.

Professor Midwinter: From looking at the rest of the savings, my instinct is that it is probably being kept within health.

Ms Alexander: But is it being kept by the boards? We can leave that to you. When we come back after the recess, we will be straight into what is happening to the other 50 per cent of the savings that are time releasing. It would be helpful to have clarity on that issue. Local government has been told, "We're holding on to money at the centre. You're not having it." Is health being treated in the same way or differently? Given how far we are into the financial year, there must be a factual position on that somewhere.

Professor Midwinter: Yes.

The Convener: I would have thought differently, but we will see.

Jim Mather: I am grateful for the tables. It is interesting that table 2 shows non-NHS procurement, which is not mirrored in the UK target. I assume that it is spread across UK departments.

Professor Midwinter: Yes, it will be. The UK has done it differently. Not only that, but at UK

level local government savings as a whole are treated by department. Each department shows how much the line within the revenue support grant has been adjusted; we just have a total. I know that £80 million of the £150 million saving from procurement is attributed to local government, but we are awaiting a report from the improvement service, which is trying to quantify how much of local authority budgets is spent by procurement. That is a sign of the existing confusion and vagueness.

When we were first asked to do comparisons with Whitehall, we were told that in Whitehall the figure would be 2.5 per cent for each department and that the mix between cash and time would vary. In Scotland, we were told that only cash savings were being employed in the first instance, when the figure was £500 million. We did a comparison then. The Executive has suggested that it is unfair to do such comparisons when they include reserved functions, where the bigger cash savings were made. Table 2 shows the equivalent UK target for each of the devolved programmes, which is expected to save 1.25 per cent per annum in cash. That is the basis of the comparison, but it is still somewhat below the—

Jim Mather: Therefore while we can look to Nicol Stephen to be responsible for the savings in transport, responsibility for other non-NHS procurement lies with Tom McCabe.

Professor Midwinter: Yes, but it will be spread. The savings will have to be generated across departments.

Jim Mather: Sure, but the way things tend—

Professor Midwinter: In accounting terms—yes.

The procurement team has promised me a note on the methodology that it used to make its assumptions about how much can be saved. I will come back to the committee when I have that note.

One of my big concerns is the absence of information in the technical notes about how the totals were arrived at. The guys said that the Executive can do it, but the information is not included in the technical notes. They have promised to give the committee a back-up paper.

Jim Mather: We have to worry about savings like that, part of which may come about because of changing commodity prices. As I said a moment ago, boosting the volumes of goods that the Executive buys could have a perverse effect on Scottish economic growth as a result of the orders being placed with large UK companies.

Professor Midwinter: I think that the leader of Stirling Council expressed a similar view, albeit at a local level, in our meeting.

Jim Mather: The apparent upfront savings ignore the stockholding cost, waste and attrition, insurance costs and space that are required, as well as the management time that will be required to cope with the volumes.

Professor Midwinter: Yes.

The Convener: Members have no further points. I thank Arthur Midwinter for the paper, which we note.

Budget Process 2006-07

11:21

The Convener: Agenda item 4 is consideration of an approach paper to our scrutiny of the draft budget. As the process is more limited in non-spending-review years such as this year, the suggested approach is that we take formal evidence only from the minister. The paper also suggests that, in line with previous practice, we hold an external meeting. Any work that we decide to do on efficient government can be factored into the timetable in addition to the work that is set out in the paper. Members should not think that they are getting an easy ride.

A summary of the recommendations can be found at the end of the paper. If any member wishes to raise a point on the recommendations, I am happy to take it now. As it appears that no member has a point to make, are members content with the paper?

Members indicated agreement.

Jim Mather: Are you looking for suggestions for geographic locations?

The Convener: I could take some, if you wish to make them.

Jim Mather: Given that we have done Orkney, Skye, Kirkcudbright—which qualifies—and Perth—

The Convener: And Motherwell.

Jim Mather: Yes, and Cupar. If we start to colour in a map of the places that we have been to, some obvious gaps appear. I am thinking of places such as Argyll and Bute, Caithness, Inverness and Aberdeen. If we are to cover the territory, we will need to visit places like that. It would be good for the committee to be seen to be gradually colouring in the map.

The Convener: Members should send suggestions to the clerk and we will come up with a list of places that we might go to. We will make a decision at the appropriate time, which might be at our next meeting or the away day. Are we agreed?

Members indicated agreement.

The Convener: I will get the clerk to circulate something in due course.

Deprivation Spending Inquiry

11:23

The Convener: Agenda item 5 is consideration of a revised approach paper to our cross-cutting inquiry into deprivation spending, which is already looking very interesting. Last Friday, we received the Executive's response to our four questions; that response has been circulated to members. The paper from the clerks includes an outline timetable for the inquiry. Arthur Midwinter is still with us and he can respond to any specialist questions that members may have. As the paper was produced by the clerks, they can respond to the outline issues.

Does silence mean contentment?

Members indicated agreement.

The Convener: Excellent. In that case, do members agree to the methodology and timetable that are outlined in the paper?

Members indicated agreement.

The Convener: Good.

Jim Mather: Again, are we looking for suggestions for case study locations?

The Convener: The idea is to send members from urban areas to rural areas and those from rural areas to urban areas so that we inform one another. The process might lead to some cross-fertilisation.

Agenda item 6 is consideration of our draft submission to the Public Administration Select Committee. We agreed at the beginning of today's meeting that the item would be taken in private. I thank the press and public for attending and invite them to leave.

11:25

Meeting continued in private until 11:57.

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