

FINANCE COMMITTEE

Tuesday 27 September 2005

Session 2

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FINANCE COMMITTEE

21st Meeting 2005, Session 2

CONVENER

*Des McNulty (Clydebank and Milngavie) (Lab)

DEPUTY CONVENER

*Mr John Swinney (North Tayside) (SNP)

COMMITTEE MEMBERS

Ms Wendy Alexander (Paisley North) (Lab)

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

*Mark Ballard (Lothians) (Green)

*Derek Brownlee (South of Scotland) (Con)

*Jim Mather (Highlands and Islands) (SNP)

*Mr Frank McAveety (Glasgow Shettleston) (Lab)

*Dr Elaine Murray (Dumfries) (Lab)

COMMITTEE SUBSTITUTES

Alex Neil (Central Scotland) (SNP)

Iain Smith (North East Fife) (LD)

Janis Hughes (Glasgow Rutherglen) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Elvidge (Scottish Executive Permanent Secretary)

Tom McCabe (Minister for Finance and Public Service Reform)

Peter Russell (Scottish Executive Finance and Central Services Department)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Judith Henderson

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 4

Scottish Parliament

Finance Committee

Tuesday 27 September 2005

[THE CONVENER *opened the meeting at 10:05*]

Efficient Government

The Convener (Des McNulty): I welcome the press and the public to the 21st meeting in 2005 of the Finance Committee. I remind people to switch off all pagers and mobile phones. We have apologies from Wendy Alexander. I should also mention that this is Judith Henderson's last committee meeting before she moves to a new job at the Scottish funding councils. On behalf of the committee, I thank Judith for her work.

For item 1, I welcome the Minister for Finance and Public Service Reform, Tom McCabe, who is accompanied by Peter Russell, the head of the efficient government delivery group. I believe that the minister will make a short opening statement on time-releasing savings, after which we will proceed to questions.

The Minister for Finance and Public Service Reform (Mr Tom McCabe): Good morning, convener. I thank you for the invitation to come along this morning and to give evidence on our efficient government initiative. I am genuinely grateful for the opportunity to explain our determination to succeed with efficient government and for the opportunity to put the record straight after some inaccurate and misleading assertions that have been made over the past week.

Following those inaccurate and misleading assertions about our pursuit of efficiency savings, there has been considerable media interest in the initiative. One assertion is that we cannot show where the sources for redirection are being generated. That is utter nonsense and I repeat to the committee the assurance that I have given to the Parliament and in meetings throughout Scotland: all the savings that are being made through the efficiency programme are being monitored. I am absolutely determined that those savings will be made and will be seen to be made.

In that context, I reiterate that we have a range of supporting internal processes that we use to monitor progress towards delivery of savings—the committee should be well aware of that, as my officials discussed the matter with committee officials and the adviser to the committee and showed them samples of the processes. Our technical notes, which were developed in consultation with the independent Audit Scotland,

provide robust and transparent information about how we are doing that. The notes are on our website along with details of our dialogue with Audit Scotland on monitoring and measurement.

As Audit Scotland has acknowledged—although I saw little recognition of that in the media posturing in which some engaged last week—efficiency technical notes are working documents and they were never intended to be a complete record of all aspects of each project. Implementation of each of our efficiency projects is therefore supported by appropriate delivery planning, the quality of which is assessed regularly by the efficient government delivery group.

Advisers to the committee and some political commentators have queried where the extra resources will go. I make it absolutely clear that all the resources released by the efficient government initiative are reinvested in improving service delivery. However, I am not about to dictate to service providers where every extra pound should go. They are in the best position to direct investment where and when it is needed most in their local communities.

Although some people would like to tempt me along the route of creating an army of official button counters to add another layer of bureaucracy to government—those people would then criticise the growth in the number of bureaucrats at the expense of front-line services—I have no intention of yielding to that nonsense. I am not going to waste public money by following every pound that is saved on one of the many thousands of budget lines in public service organisations. That would be a needless waste of valuable resources, which could be better spent on nurses, dentists, teachers and police officers.

That brings me to comments that have been made about the 2004 spending review, efficient government targets and the national health service. I repeat our unequivocal position. The NHS received an additional £700 million from the spending review and health boards have been instructed to generate a further £90 million of efficiency savings, which will be reinvested in the NHS. To place any other interpretation on our position is, at best, a misunderstanding.

The efficient government programme is about working more efficiently to ensure that we make the most of every public pound. It has freed up resources for Scotland in support of the spending review and it continues to free up money for the national health service, councils and other public bodies to use for their front-line services.

The issues that we are dealing with in this ambitious programme are complex. With the wrong approach, they could also be counterproductive. Audit Scotland recognised that

in its letter to the Finance Committee of 10 August, which stated:

“It is important to recognise, however, that the relationships between inputs and outputs in the public sector can be complex: in particular it is often difficult to identify and measure outputs from public goods. In these circumstances the costs associated with the development and maintenance of detailed measurement and monitoring systems can outweigh any associated benefit.”

The Finance Committee recognised the potential dangers during its recent away day; members expressed concern that the number of partnership agreement commitments and spending review targets could lead to too much time being taken up with monitoring and not enough with delivery.

I am not about to deny that in achieving our ambitious programme we face a number of challenges, but they are challenges that we relish because we are determined to succeed. With the assistance of Audit Scotland, we will continue to work through those problems to deliver efficiency and thereby free up resources to better serve the people of Scotland.

It seems that, rather than accepting that the programme is valuable and worth delivering, some would prefer a trial by media through the use of selective and, at times, wholly unsubstantiated allegations. It is remarkable that we even faced the assertion last week that we had sprung the initiative on the people of Scotland, as if the good people of Scotland were somehow in revolt at the notion of securing better value for their hard-earned cash.

Allow me to recount some of the important dates that refute that allegation. We first announced our intention to launch an efficiency programme saving £500 million a year in June 2004. In November 2004, we published our efficient government plan, setting ourselves a revised target of £745 million of recurring savings by 2008. On taking over the portfolio last October, I delayed that announcement, because I wanted to review those targets. I remind the committee that at the time we were criticised for the delay and not for undue haste.

In March 2005, we published our cash-releasing efficiency technical notes and, in May, we published Audit Scotland's original comments on those notes. In August, we published Audit Scotland's comments on our revised technical notes and, in September, we published the revised efficiency technical notes, which identified £1.2 billion of efficiency savings, including £337 million of time-releasing savings.

I delayed the technical notes that were published in September because I was determined to ensure that we had done as much as we could to take account of Audit Scotland's independent comments. I believe that we have done that, but,

more important, I believe that we can demonstrate that Audit Scotland agrees with me.

We involved Audit Scotland because we want a robust programme. In its letter of 10 August, Audit Scotland stated:

“Our review has found that the Executive has incorporated improvements in the Technical Notes for time-releasing savings following our review of similar notes for cash releasing savings and as part of its own ongoing development programme. We noted in particular that:

- the methodology for savings calculations is more transparent in many of the Notes
- the analysis and disclosure of key risks has been improved in many cases; and
- the analysis of how savings will be made and monitored is generally more transparent.”

That sort of positive outcome is a result of a continuing dialogue between Audit Scotland and Executive officials, yet, in all the comment that has been made around the work of the Finance Committee, I have heard precious little acknowledgement of those comments. In all candour, if this is about objective scrutiny, I find that difficult to understand.

I apologise for the length of my remarks. In conclusion, as I said earlier, we are determined to succeed. No amount of misinterpretation, deliberate or otherwise, will deflect us from that. I say again that I am determined to work as closely with the Finance Committee to achieve the efficiency savings as the committee will allow. Thank you for your indulgence. I will do my best to answer any questions that the committee may have.

10:15

The Convener: I will make a few comments at the outset. The committee, too, is determined to succeed in its role of maintaining proper and effective scrutiny. I do not think that the committee has had any doubt that the savings—which we hope will all be delivered—are being monitored. We have focused our attention on baselines for measuring outputs and the measurement of increases in services and I assume that we will continue to do so, in co-operation with you, minister. I certainly think that the committee has tried to play a constructive role in making clear its point to the Executive and to Audit Scotland. We are engaged in a collective enterprise to ensure that we get the best value for the people of Scotland. That is an objective both of the Executive and of the scrutiny process.

I invite questions from members.

Mr John Swinney (North Tayside) (SNP): Minister, you made a number of comments on the Audit Scotland letter of 10 August 2005. However,

there is a sentence in paragraph 4 of that letter that you did not highlight, which reads:

"Our comments are intended to highlight ways in which the process requires to be developed as a robust basis for monitoring the delivery of savings."

I took from your comments the suggestion that Audit Scotland was reinforcing the process that the Executive has arrived at. Do you think that the sentence that I have just read out highlights a concern on the part of Audit Scotland—which the committee is quite right to examine—that a great deal more work is required to guarantee that the claims that the Government has made on the efficient government initiative can be proven by a realistic and reasonable examination of the Government's statements and actions?

Mr McCabe: Audit Scotland is a professional and independent organisation that performs an important role in the public sector in Scotland. I would be very surprised if it said that we had reached the end of our knowledge on efficient government and that there were no more boundaries to explore. In any initiative, there will always be a requirement for processes to be refined and developed. That is what Audit Scotland said in the quotation that you read out; it said that processes require to be developed continuously. I could not agree more. We are at the beginning of an extremely important process. Our determination is to embed the proposed savings for the long term in the interests of the people whom we serve. I would take it as read that we are not the fount of all knowledge and that we will continue to develop our understanding and to pursue rigorously the efficiency and other savings as time goes by.

Mr Swinney: You accept that there is a job of work to be done to put in place the mechanisms to guarantee that the delivery of the Government's savings targets can be monitored.

Mr McCabe: That is a different interpretation. You have moved away substantially from what Audit Scotland said. Audit Scotland said that there continues to be a need for work to be done on the development of processes. We entirely accept that. We are not the fount of all knowledge and we do not think that we have all the answers or that we know about all the possible ways of identifying and monitoring the savings. Of course that is an on-going process.

I remind you that we faced another allegation last week. That allegation was made not by a member of the Finance Committee, but by a BBC reporter—although how that reporter arrived at the allegation remains open to question. It was alleged that, one year into the process, the Executive has still to satisfy its critics. We are talking about a process that began in April 2005, the first phase of which will end at the end of March 2008. In its

eagerness to transmit information to the general public, even the BBC cannot portray the months between April and September as being a calendar year. We are not a year into the process and we accept that we are on a learning curve. At the end of March 2008, we will continue to learn lessons from the process and I hope that we shall continue to apply those lessons.

Mr Swinney: The simple point that I was making was that, contrary to what you said in your opening remarks, a job of work is still to be done to guarantee that the Government's claims can actually be delivered.

I shall quote another part of the Audit Scotland letter that you did not read out. Under the heading "Measurement", it states:

"The measurement of time-releasing savings requires adequate systems to be in place to capture and measure baselines, transaction costs and productivity outcomes. In the public sector these systems ... are rarely in place or well developed. This represents a significant challenge to effective monitoring and measurement of the claimed savings."

Does that not say to you that there is a significant question about the claims that the Government has made on the initiative, which needs to be reinforced with further work and further examination, and that, contrary to what you said earlier, there is a tremendous distance yet to be travelled?

Mr McCabe: It suggests to me, Mr Swinney, that you are determined selectively to quote as much as you did on television last week. What you fail to recognise—

Mr Swinney: Come on—

Mr McCabe: I let you finish, so I shall try to answer the questions that you are posing. With respect, what you fail to recognise is what the letter goes on to say. I shall read again the quotation that I read earlier. The letter states:

"It is important to recognise, however, that the relationships between inputs and outputs in the public sector can be complex; in particular it is often difficult to identify and measure outputs from public goods. In these circumstances the costs associated with the development and maintenance of detailed measurement and monitoring systems can outweigh any associated benefit."

I said—clearly, I hope—in my opening remarks to the committee that I will not take us along the road of developing measuring and monitoring systems that outweigh the benefits of the efficiency programme.

Mr Swinney: I am not quoting from Audit Scotland's letter any more selectively than you have, minister. I take from the letter that Audit Scotland would not be satisfied to sign off today the Government's process with the type of Audit Scotland trademark analysis that would give

people comfort in the exercise that has been undertaken. How then are we supposed to judge whether the initiative reflects a genuine drive for efficiency in the Government, or simply the reallocation of resources that have not previously been allocated with the type of firmness that the Government would suggest that they have been?

Mr McCabe: I accept and welcome the constructive comments that we receive from Audit Scotland. I actively encourage our officials to continue the on-going dialogue with that organisation. I think that you have put a very ambitious interpretation on the letter that Audit Scotland has sent to the committee.

Mr Swinney: Audit Scotland's letter raises issues that I think give rise to significant questions about the Government's efficiency programme and the robustness of the claims that the Government can make about that programme. I am asking you to clarify for the committee how you intend to answer the legitimate questions that are raised by Audit Scotland.

Mr McCabe: As I have said, we shall continue the constructive on-going dialogue with that organisation. It is not for me to tell the committee how to do its work, Mr Swinney, but if you are unhappy with Audit Scotland's letter, perhaps you should ask the organisation about the matter.

Mr Swinney: I am not unhappy with Audit Scotland's letter. I think that Audit Scotland's letter is absolutely fair comment. What I am unhappy with is the reaction of the Government.

Mr McCabe: No, no.

Mr Swinney: Big questions are raised by Audit Scotland that have to be answered by the Government. It is not me who is writing down these things. These significant words are in the name of Caroline Gardner, the deputy auditor general, an independent public representative who raises big questions about the robustness of the Government's programme. I simply want to know how you intend to answer the challenges that the deputy auditor general sets out in her letter.

Mr McCabe: I think that I have already answered that question, but if you are so convinced that your interpretation of the letter is right, perhaps you should ask Audit Scotland.

The Convener: It seems to me that there is an iterative process going on here. As you pointed out in your initial remarks, minister, there is not a cut-off point for Audit Scotland to scrutinise the process, which will take place over time, as will the Finance Committee's scrutiny process. Audit Scotland has indicated in the letter that some of its concerns—particularly in relation to the transparency of calculations, risk disclosure and monitoring—have been addressed in the time-

releasing ETNs. However, concerns remain about whether the specification of savings is adequate, about the lack of output data to show efficiency improvements and about the need for more information to remove any uncertainty about how savings will be realised. Do you accept that the Executive continues to undertake a process of refinement to identify more information and greater clarity about how savings can be achieved and about where money is being reallocated to?

Mr McCabe: I accept entirely that dialogue and an iterative process should continue. That must be tempered by realism. We will not adopt a pure process for which, to achieve that purity, a huge checking bureaucracy must be established that costs unjustifiable amounts of public resources. With the acceptance of that reality, I am happy and delighted that our dialogue with Audit Scotland will continue. I will be happy and delighted to continue to receive advice from it. Just as I delayed the efficiency technical notes in September to ensure that we had done as much as we could to take account of what that organisation said, I will do the same in future when necessary.

The Convener: I will ask the question slightly differently. You have huge experience of local government and its best-value regime, whereby a parallel exercise takes place—savings are identified and cash is reallocated. In your judgment, is the Executive behind local government in its experience of such a process? If so, do you seek to rectify that? If not, have you reached the same point as local government in the process of achieving what is called best value in local government and efficiency savings in central Government?

Mr McCabe: An important dialogue takes place with local government. It shows local government's maturity and willingness to engage actively in the process. Local government commissioned a report into its budget planning and monitoring documentation. The interim report was supplied to us. It concluded that current budgetary information would not suffice for monitoring efficient government, as that information had been prepared prior to clarification of the criteria through the technical notes. The conclusion was that few councils had an explicit and developed efficient government programme for 2005-06. That was a mature recognition.

As a result, local government has committed to have in place by November this year a system that allows it to identify the savings that it generates and where those savings go. That is a mature approach by local government, which shows that it is determined to join the Executive in ensuring value for money for the people of Scotland. We

are delighted with the continuing dialogue with local government, which proceeds constructively.

Jim Mather (Highlands and Islands) (SNP): You have yet fully to address Audit Scotland's concerns about cost offsets and untested assumptions. I note your desire to avoid bean counters and balance that with your desire to meet the objective scrutiny test. Those three problems that beset efficient government also beset most organisations, other countries and businesses. Other countries and businesses get round them by having an outcome focus. If we were trying to justify efficiencies in a business to John Harvey-Jones or Richard Branson et al, they would ask what the impacts on sales, growth, profit, the cash position and market share would be. Can you cut through all the complexity, which neither we nor you like, and tell us what the outcomes will be to improve Scotland in toto and the lives of the people of Scotland?

Mr McCabe: I could not agree with you more—that is exactly our objective. Taking local government in Scotland as a good example, I want to focus far more on the outcomes from resources and far less on detailed processes that try to measure how that money is used. That is exactly the direction that I want to travel in. In our continuing dialogue with Audit Scotland, we are examining how to reach that point—indeed, Mr Russell might explain the nature of that dialogue further. I am very keen to pursue that matter.

I said earlier that local government has now committed itself to introducing, by November this year, a system for identifying the savings that are made and where they go. In any such system, councils should explain to the public whom they serve how, for example, the range of care or after-school care services has expanded through savings that they have generated in other areas. In that way, the general public will start to come to a real understanding of how such services touch their lives.

10:30

Jim Mather: We seem to be talking a little at cross-purposes, because what you have said very much has an output rather than an outcome ring. I am interested in the top-level outcomes such as growth, sales, profit, cash position and market share that would be important to business. What are your equivalent macro-objectives and outcomes for efficient government in Scotland?

Mr McCabe: I have tried to demonstrate that the outputs from an efficient government saving could be used to expand a range of care services. Of course, it is extremely difficult to quantify their contribution to the person who receives those services and to the overall well-being of the

community. That said, no one here would disagree that, for example, in East Kilbride, where the demographics are challenging, expanding care services to support the aging population would have a public good. I must repeat that I am not going to get into some abstract process to seek the exact definition of what improving the range of care services means for a community. Such a process would be futile and not worth while.

Jim Mather: But other countries are not taking that approach. Instead, they are setting targets for improving economic growth and Government revenues, for boosting population and life expectancy and for getting more people of working age out of economic inactivity and into the marketplace. Are you willing to step up to such outcomes and measure your efficient government initiatives against them?

Mr McCabe: Of course we want to step up to such outcomes. In fact, the Executive pursues them across the whole range of its activities. For example, later this year, it will become illegal to smoke in an enclosed public space. That is because we want to improve life expectancy in Scotland and know to a degree of scientific fact that the Smoking, Health and Social Care (Scotland) Act 2005 will have that result. I think that Mr Russell wants to comment at this point.

Peter Russell (Scottish Executive Finance and Central Services Department): We need to strike a balance when we look at outcomes, outputs and inputs. I might be able to provide a useful illustration from my experience in the Scottish Prison Service. If the outcome from imprisonment is reduced reoffending, it is hard to know which governor in which year contributed most to the reduction in reoffending for prisoners on life sentences. Was it the result of the work carried out in taking those prisoners off drugs in the first two years of their sentence, the work on their literacy in years 3 to 5, or the pre-release work in years 12 to 14? We all agree that the outcome of reduced reoffending is desirable, but we need space in our range of tools for outputs, which give us a more practical and immediate handle on what is happening. We are not saying that one aspect should be pursued to the exclusion of all others; instead, we must strike a balance. I also point out that the definition of efficiency is the relationship between outputs and inputs.

Jim Mather: I take that—

The Convener: Jim, a couple of other members want to ask questions.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): You said that all savings will be regularly monitored, but how do you intend to monitor savings that are made through, for example,

arm's-length organisations, local authorities and health boards? You have said that local authorities' budgetary monitoring will be altered. I notice that efficiency savings are to be made in the use of classroom assistants. Will councils' budgetary monitoring be altered to allow them to pick up those savings and ensure that the money is transferred to front-line services?

Similarly, how can the Executive ensure that health boards will reduce their absence levels to 4 per cent and save £30 million to £40 million annually? Will you have a direct line into the health boards to ensure that those savings are made? Also, will you make inroads into health boards to ensure that those moneys are transferred to front-line services? If you cannot, then you cannot really say that your savings are being monitored.

Mr McCabe: Efficiency technical notes back up the entire programme. They are not insubstantial, although from listening to some commentators one might think that the entire document was written on one side of a piece of A4 paper. It is through the notes and the supporting processes to which I referred earlier that we are able to do the things to which you alluded. We do not draw up the notes in isolation; the notes relating to health are drawn up in conjunction with the Health Department to ensure that it agrees with the methodology that the notes contain and that it is aware of the supporting processes that will monitor its success in achieving what is pursued in the notes. That is how we do it—through that extensive process. Please do not take away the impression that the notes are drawn up simply by the Executive sitting here in Edinburgh and writing down its view of how things should be done. The notes are drawn up in conjunction with the kind of arm's-length bodies to which you referred.

Mr Arbuckle: I accept the first point that you make—that the savings have come through the Executive's working in conjunction with local authorities, health boards and others. However, I am still unsure how the Executive will be able to pick up whether the savings have been realised and whether the money has been released from the services and pushed to the front line. Does the Executive have a monitoring role at that level?

Mr McCabe: Mr Russell will deal with that point.

Peter Russell: Yes, we do. Our Health Department colleagues have substantial tools for tracking how each health board is getting on with each initiative. In the case of time-releasing savings, it is not a question of transferring saved funds from one budget to another; by definition, the saving is in time and often means release of front-line staff for more fruitful work. If people are off for fewer days in the year with sick absence, they are available to treat patients or teach pupils

for more days in the year. That is where we get the benefit most directly.

Mr Arbuckle: Those monitoring devices are useful, whereas the ones that you mentioned earlier were time wasting or were not time efficient. There seems to be a contradiction.

Mr McCabe: I do not quite understand that point.

The Convener: You are right to say that there should not be a huge bureaucracy of bean counters, button counters or whatever. However, the efficiency savings require effective baselines and clear outturn measures to be demonstrated, both from your point of view and from ours. Do you feel that the information that you have given us provides the correct balance, or do you accept Audit Scotland's view that further work is required on the outturn measures so that it can be demonstrated that the efficiency savings can and will be delivered?

Mr McCabe: Yes, of course I do. That is why, in November—the methodology is not in place in local government—local government will develop a methodology that will allow it to demonstrate exactly the kind of thing to which you have just alluded. Of course, that work is not complete and we acknowledge that.

Mr Frank McAveety (Glasgow Shettleston) (Lab): Although I did not smoke before I came to the committee today, I will probably need a fag by the time the smoking ban comes in.

Mr McCabe: I strongly discourage you from doing that, Mr McAveety; however, it is your personal choice.

Mr McAveety: No—I want to keep my youthful good looks.

Three things are important. Amidst all the heat from both sides, we need to try to get to the heart of the matter. What comes out of the Audit Scotland letter is the core of the matter for both sides, in terms of interpretation. The letter is not for selective quotation, but what it says is worrying. It says:

"The measurement of time-releasing savings requires adequate systems to be in place to capture and measure baselines, transaction costs and productivity outcomes."

I think that you share the committee's agreement on that. However, the letter then says:

"In the public sector these systems ... are rarely in place or well developed."

The question is how we get the measures at your end and at our end. We know what the baseline is, so we are starting from the same position, and we can get the outputs. The on-going work is important. When do you think most of it can be concluded? You probably know from the

outset 90 per cent of what you need to know. The question is how we get the information at both the Executive's and the committee's ends. The worry is that although you have made a commitment to trust local government and other executive agencies to deliver, to do so they need to have everything in place and to know the real context.

Best value has been helpful for local government, but it is still not the only answer in making it—or health boards and other agencies—more efficient. I am not interested in the media portrayal of the situation, but in what we can deliver for our constituents. At the end of the process, will we over the next two or three months be able to say that you are clear about where you are trying to get to and will we feel comfortable that we share the same information and perspective? That is really what today's debate is about.

Peter Russell: Part of the on-going dialogue that we are having with Audit Scotland is about working out a means by which we can assert what we believe has been achieved in a year in terms that will allow Audit Scotland to review that assertion. There would not be an audit certificate of the true-and-fair-view variety; we are working on what shape of statement would be appropriate. There would be evidence to back up any claim of what had been achieved. We are still working with Audit Scotland on the precise shape, but it will need to be in place by the end of the year.

Mr McCabe: It is all about the pursuit of proportionality—we want to get things in proportion. We do not want unnecessary bureaucracy, but we want to try to demonstrate as far as we can where savings have been generated and what they have effected in terms of service to individuals in the community.

Mr McAveety: Even if we get that, which is the main objective of the process, the other demonstrable objective has to be to allocate money to what we think are the priorities on which the general public are focused. We have to consider how to make decisions so that we do not throw money at areas that have not demonstrated good outcomes, but instead at areas that can demonstrate good outcomes and where there can be genuine benefit. What process do you have at the Executive end for assessing that?

Mr McCabe: That introduces the wide question of relationship with our delivery agents, the most obvious of which is local government. It is a shame that we continue to use local government as a reference point, but it consumes considerable public resources and it is important to communities. What Mr McAveety is asking about takes us beyond efficient government. We are determined to establish a dialogue and process that will allow us to do the following: to become

much more outcome focused in the use of resources; to spend less time on monitoring how money is spent; to spend less time on demanding myriad plans from our delivery agents about how they will go about achieving objectives; to spend more time achieving the headline outcomes; and, through the detail of an outcome agreement, to trust organisations to decide on their own how they will achieve the outcomes. That is how we want to avoid unnecessary process, which I think is important.

On efficient government savings, what I said a moment ago relates more to the totality of funding that delivery agents receive from the Scottish Executive. I think that people would quite rightly rail against me as a minister, or against the Scottish Executive as a body, if we were to dictate to organisations how they should direct savings that they had generated. Local government is democratically elected. Authorities that might generate £50 million from administrative savings are elected to determine the priorities in front-line service delivery that will best serve the communities that they represent. It is not for me to try to influence unduly the priorities that they set. That is an important principle.

10:45

Mr McAveety: I do not entirely agree with your final point. I think that Government has a responsibility to try to focus resources on certain areas, but I would like that to be done using the kind of language that people in local government feel comfortable with. I do not think that there is a difference between what most local government politicians want to happen in their areas and what most parliamentarians want to happen in those areas; the question is about finding commonality. That is really not a question; it is more of an observation.

Mr McCabe: I do not disagree, but there is a fine line between the Executive's saying that the Executive—which has been elected to serve the people of Scotland—will set headline priorities for improvement of the country that we will transmit to our delivery agents, and our saying that the Executive will get into the fine detail of telling those delivery agents exactly how that improvement should be achieved. That is the remit of councils, as elected organisations.

Mr McAveety: I agree with that. Organisations that have a democratic mandate have equivalence. However, are you comfortable that executive agencies and the civil service apply the same rigour in their approach as elements of local government and health boards have shown in recent years?

Mr McCabe: I am on record as saying that I do not think that the model that we currently employ for executive agencies and other bodies is necessarily the right one. In the circumstances in which we find ourselves in 2005, there is a case for refining that model. I have no hesitation in repeating that.

Mr Swinney: You say that it is not part of your role to dictate to other organisations how they should spend efficiencies that they have gained. However, in effect, is not that what you do to local authorities when you assume that they will make efficiency savings and then withhold a proportion of the expenditure that you would otherwise have given them, particularly when you do not do that to other bodies?

Mr McCabe: No—that is a misinterpretation. I am not dictating to local authorities how they should deliver services; rather, I am saying that they should generate efficiencies, which is a different thing altogether.

Mr Swinney: Yes, but you are in effect saying to local authorities, “We expect you to make £X efficiency savings, so we will withhold £X from your budget and you will plan your services within that new sum.” As far as I understand it, you are not saying that to anyone else. For example, you say to the Health Department, “We expect you to make £Y savings, but you can keep that money and spend it on health.” That does not seem to represent parity of treatment.

Mr McCabe: That is only a small part of the story; it must be viewed against the background of the record increases in resources that have been made available to local government and councils, which have proved in past years that they are more than capable of generating savings. It is with reference to local government’s proud record of generating savings that we effected the spending review as we did.

Mr Swinney: The same comment about record levels of investment is also true of the health service—I readily concede that it is receiving record sums of investment—yet the Health Department is being told that it can keep any efficiency savings and spend them on other aspects of health care while local government is being told that the Executive will assume that it will make efficiency savings but will spend the money on something else. The problem is that local authorities get a multiplicity of demands for expenditure on particular programmes but cannot afford to fund them.

Mr McCabe: Yes—they will always get those demands. However, because there has been a 40 per cent increase in the resources that are available to local government, local authorities are far more able to meet those demands today than

ever they were in the past. By 2008, there will have been a 50 per cent increase in the resources available to local government since 1999.

Mr Swinney: Do you accept the simple point that local authorities are not being treated in the same fashion as other agencies of government?

Mr McCabe: No. It is for the Executive to determine its priorities and how it will go about distributing money at any particular time.

Dr Elaine Murray (Dumfries) (Lab): I think that we might be making some sort of progress in relation to the concern about what efficiency means. The problem is that, generally, efficiency is defined in terms of a ratio between input and output, so if it is difficult to measure output, it is difficult to do a numeric calculation that shows how efficient we are.

You are saying that we will not do that numeric calculation—that we will expect delivery of outcome rather than calculate a ratio between output and input. If that is the case, what sort of reporting mechanism will you have? Are we to assume, as you say, that the guy in the street will not object to public money being spent more efficiently and is likely to support that? Are we reliant on the public feeling that things are better, or not as bad as they could be, or is there a mechanism by which you will be able to say, “These are the outcomes that were delivered because we made those savings”?

Mr McCabe: As I said earlier, local government will develop the methodology for establishing baselines that show where the saving was generated and where the saving was applied. For example, it will not be enough for a local authority just to say that it applied £1 million of savings to delivery of care services in its community; it will have to say that it delivered 1,000 hours of a particular kind of care last year and that this year it will deliver 1,100 hours of that particular kind of care. It will have to show that the volume of the services into which it has redirected the savings has increased.

Dr Murray: Some of the reallocation in the spending review 2004 process will come after 2004. How will we see the changes in allocation from 2004? How will those be reported?

Mr McCabe: I know that some people—strangely, given their position last week—tried to portray a position whereby somehow the clock stopped in 2004, when savings were identified. The fact that savings have been identified before the start of this efficient government process does not mean that those savings will not be affected during the timespan of the process. During the spending review 2004, it was identified that certain levels of savings would be required; however, it was always made clear that those savings would

be achieved during the three-year period between April 2005 and the end of March 2008. This is a three-year programme.

Sometimes, when I consider some of the comment that is made, it is as if this is an instant-coffee process and that we are not allowing ourselves time in which to achieve savings, but of course we are. One of the reasons for doing that is to ensure that the savings are accumulated over a reasonable period and are embedded for future use. It is not a one-off process; it is a process that embeds the savings for future use.

Dr Murray: You have identified further savings since then, which will be invested in your priorities. How will that be reported to us or to the general public? How will we know when there is extra money for a certain priority?

Mr McCabe: That will happen through the mechanisms in local government to which I have referred, through the efficiency technical notes and through our continuing dialogue with Audit Scotland. An amalgam of those processes will demonstrate that to people.

I do not want this to become a technical exercise that is interesting for accountants and analysts but difficult for members of the public to understand. The public will best understand the process when they see a real expansion in the volume of a certain service. I want to reach a point at which the dialogue in which we are engaged and the processes that we employ demonstrate clearly to members of the public that, as a result of this exercise, there has been expansion in the volume of services that are delivered.

Dr Murray: I want to ask specifically about one of the education time-releasing savings, which is to be made through increased use of classroom assistants. I understand that savings of £9 million, £14 million and £21 million are to be made. However, you will have to spend to save, as you are going to invest £7 million, £11 million and £16 million in employing classroom assistants to free up teachers' time. Will the actual savings be £2 million, £3 million and £5 million, as you will have had to invest more money to make those time-releasing savings?

Mr McCabe: There are two kinds of savings involved.

Dr Murray: I am not always sure of the distinction between the two. Earlier, you used the example of a reduction in sickness absence meaning that medical personnel would be more available to treat patients. Equally, that is a cash saving, if it means that a health board need not spend money on supply or agency nurses. I am a little confused about the difference between time-releasing and cash-releasing savings.

Mr McCabe: Mr Russell might want to say a word on that. First, I will say that the issue has two aspects. Of course a saving is generated, but the addition and application of classroom assistants also has benefit, which is harder to measure. I could not claim that our investment in classroom assistants has contributed directly to the fact that more than 50 per cent of our young people go on to further or higher education. In 12 or 15 years' time, 60 per cent of our young people might well go on to further or higher education, and it will be difficult to claim hand on heart and to show that the addition of classroom assistants contributed to increasing that percentage.

However, most people recognise that if we invest more in our ability to focus on individual pupils directly, to draw out their abilities and to allow them to progress, one outcome should be that a higher percentage of our young people go on to further or higher education. It would be difficult for me to show that in a strictly technical exercise, but common sense tells us that the assumption that that might be one outcome of the investment is reasonable.

Peter Russell: That is a nice subject because everybody would suppose that teachers do not keep time sheets that record what they do every 15 minutes and how much time they spend on activities that are ancillary to, or which support, their main teaching role. That is an example of a matter on which we might do a sample survey to find out how much of teachers' time has been freed up, from which we would make an estimate. I am not saying that education services will do that, but that is a nice illustration of Audit Scotland's point that recording systems are not in place. Nobody would expect teachers to measure their time in the way that a fee-charging accountant in private practice might record time. The aim is to have assessment of the gain that is being achieved that is as robust as is reasonable.

Dr Murray: You say that measurement is difficult, so how did you arrive at the figures of £9 million, £14 million and £21 million that are quoted in the efficiency technical notes?

Peter Russell: We can estimate in advance, but if we want to claim afterwards that such-and-such is the correct measure of the time that has been saved, we will be challenged to give a reasonable basis for the estimate. We do not want to introduce cumbersome time-recording systems that are over the top in scale. We must ask what reasonable evidence we can adduce in support of the claim. That will be part of the challenge for us.

The Convener: An important issue arises. I understand that we keep returning to the fact that we do not want to establish cumbersome measures of achievement, but we need to have baselines, transaction costs and productivity

outcomes in place so that we can get a grip of the situation. That is one of several matters that you say that you have not bottomed out yet. Is that a fair comment?

Mr McCabe: We might not bottom out the issue in that way: we might use sample surveys rather than have every teacher fill in a time sheet. In fact, I guarantee that in no circumstances will we expect every teacher to fill in a time sheet, so some people will always take pot shots at the exercise.

Mr Russell is exactly right: teachers are not accountants or lawyers who fill in time sheets to allow them to bill someone for a range of services. We do not want that to happen in the public service and no one wants that to be the case. We might use sample surveys that allow us to draw conclusions. Unless someone said that a sample survey was inappropriate, a reasonable person would be prepared to accept that information.

The Convener: We have a shared interest in having robust baselines that will allow us to make appropriate measurements. I will ask one more follow-up question to try to pin you down more. When do you expect to tell us how the targeted efficiency savings of £912.3 million by 2008 will be reallocated? Do you have a projected date from which to give us that information?

11:00

Mr McCabe: We will report our progress annually. That is as much as we can be expected to do. Obviously, it is difficult for us to roll on into the third year at this point—any reasonable person would acknowledge that. We also expect our colleagues in Audit Scotland to supply an objective commentary on our assertions on progress.

The Convener: An issue of timescale is involved. Savings need to be identified in order that they can be reallocated through the budget process.

Mr McCabe: Yes.

The Convener: Clearly there is an issue with the current savings exercise. Here we are, part way through a year, but we are still identifying the savings that are to be realised. The issue for your department—perhaps it is an administrative one—is to ensure that the savings are identified in time for the funds to be reallocated and used effectively.

Mr McCabe: I fully accept that but—by the same token—we have to start somewhere.

Derek Brownlee (South of Scotland) (Con): You have covered most of the ground that I am interested in. However, I want to double check that I understood correctly what you said about

balancing the costs and benefits in identifying whether progress has been made. I think that we all accept your argument on the need for proportionality. However, where there are financial figures in the document, I assume that that is an indication that you accept in some way that the figures are measurable. Surely the argument is therefore how to and not whether to measure progress. Is that correct?

Mr McCabe: I expect the figures to be measurable. I agree with your initial comments. I hope that everyone who is associated with the committee takes the same approach.

Derek Brownlee: I have a question on the technical notes, one of which is significant in terms of measuring progress. I refer to the consultant productivity part of the time-releasing element, which accounts for a third—perhaps slightly more—of all the time-releasing savings that are identified for that element.

I think that we all understand that the way to measure increasing consultant productivity is by examining throughput—by seeing consultants treat more patient episodes. I assume that it is relatively simple to measure that with the measures that you have in place at the moment.

The technical note also refers to measuring the complexity of consultant episodes, which is much more difficult to measure robustly. Perhaps the answer lies in the comments that Mr Russell made on sampling. How will you achieve a robust process that will allow you to do something as complex as measuring the relative complexity of consultant episodes over a period?

Mr McCabe: I have to agree that that is not without its difficulties, but we are determined to try our best to get there. If, at some time, we were to encounter insurmountable difficulties, we would come back and report that to the committee. I would be happy to do that. Without introducing undue and burdensome processes, our aim is worth while.

Mark Ballard (Lothians) (Green): Looking through the ETNs, I note that a significant number of projects involve new information and communication technology systems, e-procurement systems and the like. The tradition with ICT systems is that they do not work out as planned. I accept that. I also accept that any problems in the delivery of those systems should be picked up by existing measures. Audit Scotland has identified other issues about new systems and processes, in particular the impact of training and retraining costs. How does the Executive plan to ensure that those costs are netted into the potential benefits that new ICT systems bring?

I am also concerned that new processes and ICT systems could simply lead to the transfer of

responsibilities from back-office to front-line staff. If the principal measure that is used is, as seems to be the case from the ETNs, the ratio of front-line to back-office staff, how will you detect whether the staff ratio has changed only because of a transfer of responsibilities from back-office to front-line staff?

Mr McCabe: Mr Russell wants to make a point about that, which I will preface by saying that going anywhere near accepting that delivering meaningful ICT projects in the public sector is simply difficult is a counsel of despair. We hear about projects that go wrong, but many projects go spectacularly right.

I spent time visiting companies over the summer. For example, I visited IBM in Greenock and saw a whole ICT system that has been successfully implemented, allowing a company to transform its very reason for existence. There are good examples of ICT revolutionising how companies work and how society operates and we should by no means entertain the notion that there will always be difficulties with delivering such projects in the public sector. Of course, there have been difficulties in the past—I would be foolish not to acknowledge that—but that should in no way encourage us to think that there will always be difficulties in the future. Mr Russell wants to speak about the more detailed aspects of what you have asked about.

Peter Russell: My point is that it would be self-defeating if a change in business processes were to result in more of the time of front-line staff being consumed by administrative and support activities. That would be a false prospectus for us to make claims on. The whole objective is to release the time of front-line staff to deal with more clients or customers.

There is no simple ratio between backroom and front-line staff, but such a measure is a useful shorthand for describing the benefits that can accrue. An online booking system will mean that the total amount of clerical work that is involved in taking bookings will go down. The issue is not simply that the same quantum of clerical work has been reallocated within the organisation. The challenge for us is to ensure that we have got the treatment right in each individual case.

Mr McCabe: When I visited East Ayrshire a few weeks ago, I saw the system that has been implemented there through which people can now pay accounts and book services online—they do not need to engage with a member of the council staff. Obviously, significant administrative savings are generated as a result of that process.

Mark Ballard: I agree that the problems that the public sector has had with the introduction of new ICT systems have been no worse than those that

the private sector has had. The private sector has been plagued with problems, too, although it has had its successes in introducing new ICT systems.

I want to pin you down on measurement. I re-emphasise the point about development and retraining costs. How will you ensure that the development costs that are associated with the introduction of ICT systems are properly accounted for in measuring efficiency? Often, only reductions in back-office staff and not the costs of retraining staff who must suddenly use a new online booking scheme or whatever seem to be measured.

I take on board what Peter Russell said. We cannot get a clear measure from the ratio of front-line to back-office staff. What more sophisticated measures do you envisage using in order to establish whether there has been a transfer of responsibilities or a decline in the total amount of work that is required?

Peter Russell: It is a question of saying what proportion of the service's resources goes on support activity rather than on front-line service delivery. I was impressed by the fact that the City of Edinburgh Council's new house-letting system has attracted around 60 per cent of its clients online—that is an astonishing figure and backs up the point that the minister has made. Such systems will mean a big change in the utility of the previous measures. If all the measures relate to the service time that is consumed by a counter clerk or somebody in a call office in handling business but 60 per cent of business comes through online, there will be a complete transformation in what needs to be counted and measured.

We have said that, where the development is wholly about generating efficiency, it is right to set all the development costs—including training and the capital purchase—against the efficiency gains. However, in my experience, it is more common for initiatives to be undertaken for a variety of mainly service delivery objectives and there will happen to be efficiency benefits. In that case, it is unreasonable to set all the development costs exclusively against the efficiency gains; the project is likely to be justified only in relation to the service improvement benefits that would be yielded. Nevertheless, where there is an efficiency gain, it would be wrong to ignore that. We have to treat each case on its merits, according to the purpose for which the investment was originally made.

Jim Mather: The process has forced me to do a lot of homework. I have looked closely at the work of W Edwards Deming, the guy who turned around Japan in the 1950s and the father of quality and efficiency. He talked about efficiency being a perpetual quest that should unite all departments, functions and people to achieve consistent and

worthy outcomes. The result of that approach is that some departments have to do things that will create savings elsewhere and stop doing things that cost money elsewhere. Critically, he also said that the system must be under statistical control and that it is important to know exactly what the current outcomes are, as a baseplate.

If we do not have a consistent, overall, worthy aim that links all the functions of government, and if we do not have statistical control of the outcomes at the macro level, the initiative will be an insult to our intelligence. What will you do to get the process under statistical control, so that we can have that baseplate, and to give us macro-level outcomes, so that we can see where Scotland is going, department by department, with a consistent objective?

Mr McCabe: Frankly, I think that we have answered that question. The purpose of the dialogue that we have had over the past hour or so has been to answer exactly those points. Perhaps you tuned out, Mr Mather.

Mr Arbuckle: We have regular monitoring of efficiency savings and are within a day or two of being halfway through the first year of the initiative. We have expected cash efficiency savings of £330 million. Will we meet that target?

Mr McCabe: I am certainly not going to do a month-by-month analysis. We will get to a point at which we are confident about reporting to the committee, as the committee would expect. That reflects my strong desire not to be constantly hanging over people asking for their on-going tally. We will put in place mechanisms that will allow us to report to the committee and to the general public. However, it would be inappropriate at the moment to start making guesses about where we are, five months into the process.

The Convener: In the latest efficiency technical note, the health efficiency saving has been increased from £90 million to £208 million. Is that to do with assumed efficiency savings, as with the £90 million? Will all that cash remain in the health portfolio?

Mr McCabe: Every penny will remain in the health portfolio. The Health Department is to be complimented on the fact that it has been able substantially to increase its contribution to efficient government.

The Convener: Is the Health Department saying that it can make efficiency savings of £208 million that can be redistributed to other aspects of health care?

Mr McCabe: Unequivocally.

The Convener: I thank the minister for attending. Clearly, the committee will maintain a continuing interest in the issue and I am sure that

we will be watchful as to what further information we get from the Executive.

Performance Monitoring

11:13

The Convener: Under the next item on our agenda, we will take evidence from the permanent secretary. We will take a minute or so to allow those who wish to leave to do so. I am sure that we would not want Mr Elvidge to be trampled in the rush of the press.

John Elvidge (Scottish Executive Permanent Secretary): This is like putting the support act on after the main band.

The Convener: This session is to allow us to take evidence from Mr Elvidge on performance monitoring in the Executive. We wrote to Mr Elvidge after the interesting session at which we took evidence from Professor Michael Barber, who, at that time, was the head of the Prime Minister's delivery unit. Mr Elvidge's response has been circulated to members and we have taken him up on his offer to come along and talk to us. The committee has also signalled that it wants to speak to Mr Elvidge about resource allocations under the previous spending review.

Mr Elvidge, in your letter to us, you say:

"Ministers are committed to delivery across the full range of their commitments".

You also say:

"specific policy commitments will require more intensive monitoring and support".

Will you tell us about that intensive monitoring and support? Is it monitoring of performance and, if so, against which benchmarks or criteria?

John Elvidge: Those commitments are selected—

The Convener: I am sorry, I have not given you the opportunity to make your opening statement.

John Elvidge: That is okay. In these circumstances, I do not need an opportunity to make an opening statement. My evidence is a response to a series of questions that you asked; I am not seeking to introduce anything into the discussion that does not flow directly from your questions. I am perfectly happy to plunge straight into the pursuit of your questions.

The commitments to which you refer were selected for a variety of reasons. One criterion was that their delivery might be more complex than delivery of some of the other partnership agreement commitments and that, therefore, there might be a need for greater support for the teams charged with delivering them than for teams charged with delivering other commitments in the agreement for which the delivery path was clear and, if not straightforward, at least well

understood. The first significance of their selection was to ensure that individual teams in the organisation were properly backed up by the rest of the resources of the organisation or, indeed, by resources from elsewhere, if that was necessary to secure the delivery of the commitment.

Another feature of that set of commitments is that they are subjected to a more intense process of monitoring. Across all the commitments, we largely rely on self-assessment of how the process is going by the teams that are delivering the commitment. For the group of commitments in question, the self-assessment is supplemented by assessment by our central analytical services group, which subjects the monitoring of delivery to more rigorous scrutiny to ensure that, in areas where delivery may be most challenging, we are being most robust in our monitoring of progress towards delivery.

Dr Murray: You said that there are areas that need more intensive support. Can you give us an example of a policy commitment that has had that sort of treatment?

John Elvidge: Yes. I am sure that, without looking at my lists, I can pick a few out of my memory. The commitment on recycling waste is a good example. On the one hand, we are aiming at levels of achievement that are paralleled in other countries. On the other hand, we are aiming at a rate of movement from where we started towards those levels of achievement that is enormously challenging and, on the face of it, requires interventions that are not currently understood. Once we get past what we might describe as the easy bit of encouraging recycling, there are issues about changing public behaviours that involve interventions by Government for which it is not easy to find parallels. Therefore, it is reasonable to assume that there will have to be a degree of innovation, which might require support from outside a small team.

Dr Murray: The example of waste recycling is interesting because, in that case, the delivery is in the hands of the local authorities, not the Scottish Executive. Some local authorities are performing up to target, whereas others, such as my local authority, are most certainly not. Your requirement for local authorities to sign up to your priorities is quite challenging.

John Elvidge: Indeed. It also raises questions about the nature of partnership working between the Executive and local authorities on delivering an objective in which working practices have to be different from those that apply with regard to the generality of local government business. That is part of the distinctive challenge of delivering that commitment.

Dr Murray: I have some questions about the delivery unit at Westminster. As the convener said, Professor Barber gave us an extremely interesting presentation in May, in which he described in some detail the on-going process of achieving a target. For any specific priority, one maps a trajectory that ends with the target being achieved; I believe that Professor Barber said that that trajectory was measured monthly.

In paragraph 17 of your submission, you mention “improvements in waiting times” in NHS boards. Waiting times were one of the examples that Professor Barber highlighted when he explained how the delivery unit down south worked. You believe that Scotland has done rather better than England with regard to waiting times. As I do not have my glasses on, I will have to squint at your submission, but you say:

“Latest data indicates that 31.5 of every 100,000 population waited over six months in Scotland, compared to 83 in England.”

Did you use a process similar to that used at Westminster of putting in resources and measuring the progress towards achieving the target, or was the target achieved in a different way?

John Elvidge: It was certainly achieved in a different way. What the Scottish and English approaches have in common is close and regular performance monitoring. The data to the delivery unit in Whitehall and the data to us flow no less regularly than monthly and are enormously detailed about the nature of delivery. In that sense, the processes are similar.

The difference is characteristic of the difference between the Scottish and English models. In the example that you have raised, the delivery unit in England holds the Department of Health—the intermediary, as it were—to account for the health service’s performance. In Scotland, the Scottish Executive Health Department holds the NHS to account for delivery. We have not thought it necessary to establish a third player to hold the department to account. Given the way in which Scottish government works, such a system seems unduly complex.

Dr Murray: But in that case the department does not have any overall responsibility; it is responsible only for delivering targets. If that happens on a departmental basis, some of the raft of cross-cutting priorities and measures in the partnership agreement may not be managed in a detailed way.

John Elvidge: That is a question of the way in which information is shared in the Government. If the Health Department was monitoring performance but was not obliged to tell anyone about the outcome, we would be running the risk

that you have identified. However, the processes of government are such that the department’s monitoring performance is widely shared around the organisation.

Because that level of sharing goes on, we do not feel the same necessity to charge a group of people—on behalf of the First Minister, if we take the model literally—to monitor the Health Department in that way. Such a layer of formal checking would be redundant, given the ease with which Scottish ministers share knowledge of performance.

Dr Murray: Does that sharing take place at a political level or at an official level?

John Elvidge: It takes place at both levels.

The Convener: Is it possible to make that argument the other way round? If you are trying to measure performance, in whatever way and however rudimentarily, across the full range of the partnership commitments, does not that go further down the route of introducing bean counters or button counters? I cannot remember whether Mr McCabe referred to bean or button counters.

Mr Swinney: Both, I think. He seems to be against all of them.

The Convener: Is that not a more elaborate process, involving unnecessary checking, than what Professor Barber described as the highly concentrated and focused approach of the United Kingdom Government towards delivering targets in key service delivery areas?

John Elvidge: I will try to reply to that question with as much fact and as little opinion as I can. When I was reflecting on the evidence that the committee had received, it occurred to me that Professor Barber had come and told you about one bit of what the UK Government does in monitoring delivery; it was not his responsibility to come and tell you about everything that the UK Government does in monitoring delivery. Every department of the UK Government contains a substantial body of people who are concerned with the tracking of performance across the board. The Prime Minister’s delivery unit simply sits above that process and selects out of it a small number of things that it wants to monitor with particular intensity. I do not think that the delivery unit has been established as a substitute for the kind of comprehensive analysis of performance that you would find in the Executive or in the Department of Health or any other Whitehall department; the unit is an addition to it.

The Convener: You are saying that the Prime Minister’s delivery unit does what you do. However, there is no partnership agreement at Westminster. As it has been described to us, the focus in the Executive is on the partnership

agreement. In the past, the committee has expressed the view that there is perhaps a need for greater priority to be placed on specific targets and outcomes rather than on the full range of targets that the Executive has identified both in budgetary documents and in the partnership agreement. Would you concede that the regime of checking whether something is geared towards the partnership agreement across the board is perhaps unnecessarily elaborate and that there is a danger of simply testing compliance with partnership commitments rather than actual delivery of services?

John Elvidge: I am sure that the proper civil servant's answer is that that is a legitimate area for debate. Ultimately, it is for ministers to decide how they want to exercise political accountability to the electorate. They have chosen to exercise political accountability through the partnership agreement and its 450 individual commitments. Given the fact that that is the choice that ministers have made, it is absolutely clear to me that the right thing for the organisation to do is to have a monitoring framework that enables accountability to be exercised in that way.

The Convener: That is a very judicious answer. However, it is a difficult task to monitor delivery over the 450 commitments. Would it not be easier if there was a clearer prioritisation of monitoring delivery on targets that particularly matter, rather than the broad-brush approach?

John Elvidge: Would it be easier?

The Convener: Could it be done more effectively? That might be a more concrete way of asking the question.

John Elvidge: I would start from the proposition that one must not fly in the face of reality. If expectations of Government are broad, and if political commitments have been given in a particular way, the monitoring processes of Government have to reflect the breadth of accountability that must be discharged. We need to remember that this is not simply a product of the partnership agreement; ministers can be held to account by the Parliament in any way that the Parliament chooses on any subject that the Parliament chooses. It is part of our responsibility to enable ministers to respond to that legitimate accountability.

The process of tracking a lot of things is inherent in the nature of accountability. Arguably, in Scotland there is closer and more detailed accountability from ministers to Parliament than at Westminster. I am not sure that any system of prioritisation would relieve the organisation of the need to be in command of information about what is happening across a wide range of activity—nor would I argue that that would necessarily be a

good thing. If one is undertaking activities, one should know what is happening with them. That seems to me to be a reasonable principle. Therefore, a certain amount of monitoring is appropriate for everything that we do.

If you ask me whether it would in some sense be easier to be on the hot spot for a smaller rather than a larger amount of things, I guess that there is a sense in which the answer to that must be yes. However, I am not sure that ease of accountability is a legitimate aspiration for us. I certainly do not think that any of our activity is wasteful in an accountable officer sense.

11:30

Mr Swinney: I want to take you to one of the hot spots and follow up the point that Elaine Murray made about your statistics on health waiting times and what that says about performance monitoring in the Executive.

I am sure that the comparison between median waiting times in Scotland and in England is legitimate. However, the median waiting time for in-patients and day cases in Scotland has, since 1999, gone up from 30 days to 50 days. I am rather perplexed as to what that says. If we are talking about a performance monitoring culture, what does a deterioration of such magnitude tell us about the effectiveness of performance monitoring on what I consider a fundamental priority of the Government, which is to reduce waiting times? Reducing waiting times has been a fundamental priority of the Government for as long as I can remember.

John Elvidge: If I had known I was going to be giving evidence to you in a week with two by-elections, I might have been a little bit more cautious about including health as one of the examples in my evidence, because I very much do not want to be drawn into an active political debate about which particular measure is more important than which other particular measure in the complex field of health.

What I would say is that I think that it is a generally accepted principle of target setting—this is related to the question of prioritisation—that when one puts emphasis on one thing, performance on other things may suffer as a consequence and that effort goes towards the priorities of the moment. Therefore, one sometimes sees the kind of effect that you have identified. The purpose of a performance monitoring system is to understand what is happening and, if the outcome is not acceptable, to create the opportunity to amend priorities to change that. Performance monitoring will not of itself prevent the consequences of shifting effort from one activity to another.

Mr Swinney: Obviously performance monitoring highlights the deterioration in the median wait and the increase in waiting times for day cases. I take from your answer that effort in another direction may have skewed the figures. The median wait for out-patients is much the same: waiting times have gone from 46 days to 62 days. I find it a bit difficult to understand how the shifting of effort has led to deterioration. What intrigues me about this is the availability of the performance monitoring information that clearly shows deterioration in median waiting times for patients. There does not seem to be any obvious intervention to do something about that.

John Elvidge: I do not think that I would draw that conclusion. There are lots of interventions. Few things are more actively managed than waiting list performance in the NHS.

We can point to quite dramatic shifts from one time period to another in some of the indicators, which are evidence of active management having an effect. If the charge is that that does not always prevent some indicators from deteriorating or that it does not simultaneously improve all indicators, that would be true, but I do not think that one can draw from that the conclusion that there is not an active management process in play.

Mr Swinney: You consider that the indicators I have cited—and which, to be fair, you cited in your own evidence—are fundamental indicators of performance. We have just had a discussion with Mr McCabe about trying to avoid too much bean counting, or button counting, or both. We have those indicators and they show us the deteriorating position, and I am just trying to work out how that percolates through the system to lead to changes of emphasis, changes of policy or changes of resource allocation to tackle what seems to be a pretty big problem.

John Elvidge: For the sake of clarity, I am not entering into the debate about which is the most important measure of waiting times. There is a well-rehearsed effect—that as one concentrates on the longest waiting times, one automatically tends to push up median waiting times. There is a perfectly reasonable debate about which of those two numbers is the better measure of the effectiveness of a health service. What is difficult is to argue that you can improve both of them simultaneously. I am saying that waiting times is a generally accepted measure of effectiveness, but the particular slice that one takes through waiting times is a subject of active debate.

Mr Swinney: Forgive me for simply taking the lead from your evidence, Mr Elvidge.

Jim Mather: You stated in your memo:

“Mr McCabe reports to Cabinet twice a year on progress on the Partnership Agreement.”

What progress reports does the First Minister receive as an output of that process and how frequently does he get them? Could you also tell us what format those progress reports take?

John Elvidge: I can do my best to describe what is quite a complex document. The First Minister receives the comprehensive report in the same form as the Cabinet receives it. He also has access, as do other ministers, to the more regular summary reports of overall performance that the management group receives. As in any organisation, there is a system of exception reporting if there are particular subjects of concern.

It is fair to say that the report to Cabinet is an evolving document, but at its heart is an account of performance against every one of the 450-odd partnership agreement commitments and a separate report on the centrally monitored commitments within that. In so far as it is possible to draw out of that any general observations about delivery, that would happen as part of that process.

Jim Mather: In the presentation that we had from Professor Michael Barber, it was interesting to see him tabling the characteristics of the system whereby there are mechanisms to hold ministers and their civil servants to a single and somewhat narrower set of objectives. There is then a mechanism in place to make an objective assessment of how well people are doing and hence to produce a league table that is available to the Prime Minister and a devil-take-the-hindmost approach to management. Do you have any plans to move in that direction here in Scotland?

John Elvidge: That takes us back to our earlier territory. One could operate a system of that kind only if ministers had made a prior decision that there was a smaller group of targets or objectives that were overriding priorities for the organisation. In the absence of that, one cannot simply transpose the delivery unit approach. As I have no reason to suppose that ministers will change their view of political accountability to the electorate, I have no plans to build any systems that assume that they will.

Jim Mather: Therefore, we continue producing a report containing 450 or so measures, with the progress against them, and that is the document that is put before the Cabinet for the First Minister and his colleagues to assimilate and respond to.

John Elvidge: Yes. Perhaps I did not explain clearly enough that, although the full data are there for ministers, they are summarised in various ways to assist them see the key elements. It would not be very responsible behaviour on our part simply to bang down the detail of 450

commitments and say, "There you are. Make what you will of that."

Jim Mather: Does that summarisation not take us closer to having a subset of objectives that can be managed using the Barber method?

John Elvidge: Yes and no. It takes us closer to knowing what subset of objectives might be proving particularly challenging to deliver at a particular point in time. The delivery sub-group of the management group uses a mechanism that is specifically targeted on those commitments where there appears to be a delivery issue to resolve. That is different from the approach of the United Kingdom Government's delivery unit, with its fixed list of priorities, which are there irrespective of whether there are concerns about delivery.

Jim Mather: In a situation where there is a focus on challenges within a given portfolio, along with scrutiny of why they have arisen and an assessment of how to proceed, is there a function whereby both the minister responsible and his civil servants are answerable to the Cabinet on that?

John Elvidge: There is a parallel process. The time sequence does not always work perfectly but, where possible, the first action is that the team responsible is held accountable to me and to my management group colleagues on the delivery sub-group, with emphasis being put on whether, in a problem-solving sense, we can assist the team with the delivery challenge that it faces. I would describe that as a support activity, rather than as an accountability function. My interest is in getting the delivery to happen, rather than in criticising people about any difficulties that they might be having in achieving that delivery.

Mr McCabe sees other ministers to discuss performance across their portfolios. Normally, the same commitments that are engaging me will form the core of Mr McCabe's discussion. In that setting, the ministers and their heads of department are perhaps situated in more of a context of accountability to Mr McCabe, rather than in the support context that I have described in relation to the work of the delivery sub-group.

Jim Mather: Is there a mechanism whereby the First Minister, you and Mr McCabe can communicate to individual ministers in charge of portfolios where they sit on a spectrum between highly likely to achieve their objectives and very unlikely to achieve their objectives? Can you position them in that way and thereby give them an awareness of the impression that has been created as to their management of their portfolios?

John Elvidge: That kind of assessment is fundamental to the material that is reported to Cabinet. Each commitment is assessed in terms of the risk or absence of risk to delivery. In addition, I would expect individual departmental

management teams to share with ministers the flow of management information that each will have about performance across the objectives for its portfolio.

I am perhaps making my answer more elaborate than it need be. Fundamentally, there is no risk of any Executive minister being unaware of threats to delivery performance in their portfolio over the time cycles that we are talking about.

11:45

Mr McAveety: If you were asked to define the three or four key skills for the head of the Health Department, what would you say they were?

John Elvidge: That is a fast ball. I would say that the key skills are a capacity for strategic management; the ability to organise and manage a large volume of human and financial resources; an understanding of the processes of delivery in a complex delivery organisation; and the ability to manage relationships in the context of government and the public sector.

Mr McAveety: So why has the post of director of delivery for the Health Department been advertised at a salary of £100,000 if that is the job of the head honcho?

John Elvidge: It is a feature of all organisations that the head honcho cannot spend all their time all day doing all the things that they need to do. Departments consist of support structures that allow the head of department to carry out the various aspects of their job. You might as well ask me why we employ some people to think about strategy in the health service if an ability to think about strategy is part of the skill set of the head of department. I suppose that the short answer is that the reason is that we cannot expect one individual to do the work on their own.

Mr McAveety: Is the head of the Health Department the equivalent of John Birt?

John Elvidge: No. I would not like to characterise the role of head of the Health Department by using John Birt as a description. The head of the Health Department is the accountable officer for the health budget and the senior manager of the department.

Mr McAveety: The fun is over. If we are to get a director of delivery, why should we start with the Health Department? Could that model be replicated in other departments?

John Elvidge: The answer lies in the unique relationship that exists between the Executive and the NHS. No other part of the public sector is similar to the NHS in its core relationship with the Executive. That is to say that the NHS is directly accountable to the Executive; unlike local

government, it does not have a separate democratic existence. The health service is unique in the scale of its spending—it is responsible for slightly more than a third of the Executive's total budget—and in its operational decentralisation and complexity, which make the tracking of delivery an enormously difficult business.

I am thinking hard, but the closest analogy I can come up with is with the enterprise network. However, the vast difference in scale between the health service and the enterprise network is immediately apparent. I simply do not think that one would invent a post of such weight to exercise the delivery scrutiny function for any other part of the public sector. I would not regard the proposed model as transferable. Even if it were, the Health Department would still seem to be the most logical place to start.

Mr McAveety: I would probably concede that point. My experience in the Health Department was that it requires something such as this post.

The metaphor that I always used was of a supertanker that could have a hole blasted in its hull but still get to its destination. Only then would someone tell you that they had left a big hole in the supertanker saying, "By the way minister, gonnæ sort it out for me." A delivery model is required to deal with that.

We had a discussion with the minister about outcomes. How will you measure the performance of the individual who is in the post? What value-for-money outcomes would you expect them to achieve over the next year or two?

John Elvidge: My comments are inevitably speculative, given that we are running ahead of the objective setting for the individual and that a sound principle of objective setting is that it should be done in discussion with the individual who will be subject to it. Generally, I would expect to select a limited number of the most challenging delivery issues in the health service and specify the difference that we would like to see the director of delivery make to performance against those delivery objectives. That comes very close to what Michael Barber is doing.

Mr McAveety: Is the post linked directly with the strategy and delivery unit? Is there an intrinsic link?

John Elvidge: There is not an intrinsic link.

Mr McAveety: Should there be?

John Elvidge: No, I do not think so. There should be a channel of discussion about delivery lessons that are being learned in the health service that might be of value elsewhere, but it is fundamental to the models that we use in the Executive that we try to keep responsibility for delivery decentralised in the organisation rather

than pull it together. The delivery unit is a very slim structure, which is part flying squad to help teams that are in trouble, part sharer of best practice and part monitoring body. It is best to keep the delivery unit in its whole-Executive role and regard the director of delivery and their team in the health service as the largest example of decentralised delivery responsibility in the organisation.

Mr Arbuckle: There are 10 commandments but 450 commitments. How many of the commitments can you put under the focus at any one time? You obviously cannot cover all 450.

John Elvidge: It depends what is meant by focus. Tracking them all simultaneously is not a challenge, but we can intervene in only a small number at any one time. As a general rule of thumb, it takes at least an hour of senior management time to have a sensible discussion about delivery problems on any individual commitment. An hour of senior management time—three or four senior managers would be involved—is a scarce commodity in any organisation.

In practice, we can bear down intensively from the centre of the organisation on only two or three targets at any particular time. However, one must bear in mind that there is a hierarchy of intervention. The senior management of a department will intervene within the department if particular teams are struggling, so the organisation's overall capacity to focus on commitments is greater, but it is difficult to put a figure on it. If, in very crude terms, we said that it was probably possible to have 10 per cent of the commitments under reasonably close scrutiny at any time, that might be a rough measure of capacity.

Mr Arbuckle: What triggers that sort of intensive focus? Does it come from you, does it come from within the civil service or are most of the initiatives triggered by ministerial diktat?

John Elvidge: It is a bit of all those things. There is a cyclical issue. Early in the four years of the session, one does not know how delivery on many of those things is going, so one cannot immediately say, "Let's focus our attention on the ones that are in trouble." At the outset of the four-year cycle, there are management decisions about where it might be useful to invest some time, where the risks look greatest. As we move through the cycle, the emphasis shifts to focusing on those things where the teams are identifying delivery problems. Overriding all of that, if ministers are particularly worried about something we will spend some time looking closely at it.

The Convener: There is a nice phrase that I got from a Canadian who worked for one of the legislative assemblies there: people in her position

are “we be’s”; “Whatever happens to politicians, we be here.” You have seen several Administrations in Scotland and there are some fundamental underlying issues that we have to address, whether health, education—which I know is your background—or economic growth, on which there is broad consensus between the parties about where we want to be.

You have described a politically driven process that is geared towards meeting the partnership commitments, but when you responded to Frank McAveety’s question about what you would ask the director of delivery to do, you said that you would narrow down the focus to four or five main things that were most important and required to be delivered.

Is there a disjuncture between a politically driven process that is geared towards meeting the outcomes of a coalition agreement in the form of the partnership agreement, and a managerial approach that says, “We’ve got to deliver on these 10, 12, 15 or 20 things”? Are you trying to manage something that is driving you in opposite directions?

John Elvidge: No, I do not think so. The process of narrowing down that I described would undoubtedly be a process of narrowing down that had political consent. There is absolutely no point in the organisation focusing on things that ministers do not believe are the right things to focus on. By definition, at any point in time the organisation is managing a number of things that do not appear in the 450 partnership agreement commitments. In particular, it is paying attention to some of the large, long-term outcomes that Mr Mather was talking about in the earlier discussion with the minister. I do not see that as a disconnect. As the minister said, those larger outcomes are often implicit in the more detailed objectives that ministers have set.

To put it another way, is the organisation busy managing a longer-term agenda of its own? The answer is no. Time will tell whether senior civil servants prove to be around longer than individual ministers in the Scottish set-up. I do not think that we should assume that experience in Canada or anywhere else is a guide to experience in Scotland.

The Convener: I am sure that that is the case. I was certainly not implying that there should be, or is, a separate agenda for civil servants. To cast the question in a different way, I suppose that the challenge to ministers is to identify their core priorities and what is most important for them to deliver in order for you to manage the resources towards that delivery process. That is how it seems to me. Do ministers take on board the fact that, to achieve some of the things that they deem most important, they must set clear priorities and

pathways towards delivering those things, and is that then reflected in the way in which the strategy and delivery unit, or indeed the civil service as a whole, operates?

12:00

John Elvidge: A process of discussing priorities is part of the day-to-day business of ministers. I would be surprised if that were not so in any political system. Does it feed through into what the strategy and delivery unit does? Yes, up to a point. It does not detract from the centrality of the partnership agreement commitments, but it might generate additional issues to which the strategy and delivery unit needs to pay attention. If that were the case, those additional demands on its efforts would arise from that kind of process of ministerial discussion of priorities.

The Convener: I think that we have probably finished with performance management. Perhaps we can move on to allocations from the spending review and issues of efficiency. As accounting officer, how do you satisfy yourself that the level of efficiency that is being achieved or proposed for each department is realistic and acceptable?

John Elvidge: It is tempting to say that I use my judgment and experience and look for as much evidence of deliverability as I can. In a perfect world, I would want to see a clear delivery plan that gives me complete confidence that particular sums of money will be delivered from a particular action. Unfortunately, life is not always that tidy and sometimes I have to work down through a hierarchy of assurances, taking lesser standards of evidence, which I supplement with judgment and sources of reassurance wherever I can find them, by asking questions such as “Has anyone else ever succeeded in doing that?”

The Convener: In the spending review, how was it determined where the greater scope for efficiency savings was and what level of savings should be achieved?

John Elvidge: Outside the Executive, that is done through a process of discussion across departments, drawing on individual departments’ knowledge of the areas of government for which they are responsible. Inside the Executive, it is done through a process of discussion of relative challenges that takes place inside the management group. Although quite a lot of the Executive’s efficiency savings are designed to be achieved through activities that are organisation wide, there is an issue about how the impact falls on individual departments, which we examine as closely as we can.

The Convener: It has been highlighted to us that the Scottish Executive Environment and Rural Affairs Department and the Scottish Executive

Enterprise, Transport and Lifelong Learning Department have made relatively limited contributions to efficiency savings. Why is that?

John Elvidge: It is because of varying patterns of business. The crucial thing to understand about efficiency savings is that they do not take place in a static setting. That is why it is not possible to put a number on the scale of the efficiency savings challenge for the Executive in percentage terms or, realistically, in cash terms. One can identify what the minimum saving is if business is unchanged, but of course that is not the reality, because business changes all the time and additional pressures fall on the organisation. In areas of business in which the additional pressures are greatest, the net saving will be smaller than the average. In bits of the organisation in which people are able to manage an overall decline in activity in some way, there is greater scope for making efficiency savings.

There are other factors. Procurement here, as elsewhere, is a major driver of efficiency savings. Depending on the nature of their business, different departments procure in different volumes. One cannot save money on procurement if one is not engaged in a significant volume of procurement activity. However, if one is, the scope is very large. I would not expect to see uniformity.

The Convener: I am intrigued by the fact that the smallest contributions come from those two departments. Will you say any more about why SEERAD appears to be unable to deliver efficiency savings when it has a substantial number of areas in which it could identify such savings?

John Elvidge: I am not saying that; I am talking about the net position. SEERAD has one of the best examples of a single project saving money in a department. The changes to the administration of the common agricultural policy payments have released substantial savings by delivering the payments in a much more streamlined way. In part, those savings have been consumed by new activities in the department, the introduction of land management contracts being the primary example of that. Therefore, I would not be critical of my SEERAD colleagues and their commitment to achieving efficiency where they can. One needs to recognise that they are being asked to take on additional activity in a number of areas and that that changes the net picture.

The Convener: The overall statistics seem to suggest that SEERAD and the Enterprise, Transport and Lifelong Learning Department are making the smallest contribution to efficiency savings, so I am not sure that I have quite got an answer to my question.

One of the issues is the timescales during which commitments are made to make savings, with 2007-08 being the present time horizon. In some areas, it will take longer to make the changes that are required to deliver savings. Are you considering the savings that could be made over a longer timescale, such as the period to 2010 or 2012? Might that show a different pattern from what we have seen up until now?

John Elvidge: Yes, we are. It would be surprising if the pattern stayed uniform over time. In addition, we have set ourselves a savings target for this year that is greater than the savings target that the budget forced us into. That links slightly to Mr McAveety's point about supertankers—if one wants to turn a tanker, the sooner one starts turning the wheel the better. We have tried to pull forward some of the savings pressure to ensure that when we need to hit the peaks of those savings over the three years, we have the measures in place. We are certainly looking beyond 2008 at what we need to achieve.

One of the reasons for that is that there are a number of uncertainties—and, in particular, one major uncertainty—about costs even in the run-up to 2008, which makes it difficult for me to judge quite the volume of savings that I might have to deliver over and above the minimum. The major uncertainty is the unknown cost of pay movement over that period. We are in the process of negotiating a new pay agreement with the unions—or we will be over the next few months—and I cannot know what that pay agreement will do to the pay bill. I might need to make more efficiency savings.

Mr Swinney: I will pick up on one of the convener's points about the enterprise field. You explained the relationship between the Executive and the health service as a unique and direct relationship for the delivery of services, and you suggested that the closest comparator is the enterprise network. I am struck by the fact that the 230-page manual to which Mr McCabe referred earlier identified only £4 million of enterprise network savings. Off the top of my head, that is probably less than 1 per cent of the enterprise network's budget, whereas the health service savings are formidably higher. I am struck by the inconsistency between the impact of the two—or their targets. The convener raised a point about the Enterprise, Transport and Lifelong Learning Department's limited contribution to the process. Can you explain why the disparity to which I refer exists?

John Elvidge: On the enterprise network, we must take into account the fact that, if we were not starting the clock on 1 April this year but looking back two further years, we would see a different picture of efficiency savings that have now been

driven out of the network. Its argument is that so much cost has been taken out in previous years that the scope for additional efficiency savings is necessarily more limited. No one would thank me for accepting that anyone has reached the limits of the efficiency savings that they can achieve, so I am not saying that, but cutting in at a particular point in time is always an issue with an exercise of this kind, as it can distort comparisons between one organisation and another.

Mr Swinney: That is a reasonable point. I sought an assurance that you were doing exactly what you said you were doing in that area and were not just saying something like, "Well, that's fine, lads. Thanks very much. Let's move on." Given the debate about the outcomes and impact of public expenditure, it strikes me that there is still an opportunity for the Executive to make significant gains in the effectiveness of public expenditure. I hope that the process will accommodate that in due course.

John Elvidge: I think that you can take it for granted that there is continued scrutiny of the scope for efficiency savings in all areas, including the one to which you referred.

Mr Swinney: I want to move on to an issue that I raised with Mr McCabe. It strikes me that there is an inconsistency between how efficiency savings are identified and utilised in local authorities and how that is done in other areas of the Executive's work. The Executive tells local authorities that it believes that they have the capacity to make a certain amount of savings, so the Executive will retain that amount of money. The Executive tells the authorities to make their efficiency savings within the settlement that they achieve. However, in other areas of government, the Executive says that it wants a certain amount of efficiency savings to be made, and those areas are then free to reinvest the savings as they see fit. What is the justification for that inconsistency in approach and for dealing with local authorities differently?

John Elvidge: I am tempted to say that you are taking me into areas that Mr McCabe has dealt with comprehensively. It seems to me that ministers are saying to all parts of the public sector that they are making a judgment about the savings that they believe the public sector has the capacity to achieve and are setting budgets in the light of that judgment. Ministers then say to some parts of the public sector that, because of decisions about priorities, they want to create capacity for growth in spending in those parts, but they are not saying that universally. That is the broad nature of the process that has gone on. However, I am close to territory that I feel is exclusively Mr McCabe's and not mine.

Mr Swinney: What is the rationale for deciding who fits into which category?

12:15

John Elvidge: The same rationale that lies behind any decision about prioritisation that ministers make, as they do constantly, applies in the resource allocation decisions that they make.

Mr Swinney: You were here earlier when we had a discussion with Mr McCabe about the information that is required to underpin public confidence in the efficiency exercise that the Executive is undertaking. In your capacity as accounting officer, with a particular responsibility in the relationship that exists between the Executive and Audit Scotland in the verification of Government spending, what further information do you think that the Executive must generate to meet the standards that Audit Scotland's letter of 10 August appears to demand?

John Elvidge: I am increasingly getting a sense of pits being dug around me.

Mr Swinney: Not at all. It is a genuine search for an answer. I have no other motivation whatever.

John Elvidge: I was not imputing any base motive; I was simply saying that I had a sense of pits being dug around me.

For me to answer that question properly, we have to be a bit formal about the nature of accountable officer responsibilities. The accountable officer's responsibility to ensure that spending is proper and that value for money is achieved does not quite take us into the territory of ensuring that every detail of a set of spending plans turns out precisely as it was announced to be. Accountable officers are not an alternative to ministers or second-guessers of ministers; they safeguard the propriety of money when it is spent, and the efficiency process is, by definition, a process of not spending money.

Mr Swinney: I feel that you are trying to make a distinction between the pursuit of value for money and the pursuit of the efficient government programme, as though value for money is somehow your responsibility and efficient government is not. Am I misinterpreting what you are saying?

John Elvidge: No, you are not. However, I am saying that value for money, as a principle, will take you only so far into the detail of the issues that you are pursuing. The obligation on an accountable officer is to draw attention to those things that are demonstrably not value for money, not to provide a running commentary on the comparative value for money of everything that happens. I am sorry if such distinctions are unhelpful, but I think that the limitations of the accountable officer role are genuinely important. To say that a core responsibility of the

accountable officer is to track the detail of every efficient government saving is not an interpretation that accountable officer responsibilities will bear.

Mr Swinney: Is it not part of the responsibility of the accountable officer to ensure that the baseline data are in place to allow an assessment to be made of the effectiveness of any efficient government programme?

John Elvidge: It is the responsibility of an accountable officer to have whatever data he or she needs to satisfy himself or herself that there is not a demonstrable case of poor value for money—or, indeed, improper expenditure or the other things with which an accountable officer is concerned. It is not necessarily an accountable officer's responsibility to insist on particular standards of evidence, especially when—as your discussion with Mr McCabe and committee discussions have brought out—value for money is at the heart of the decision on how many data to collect before the cost of collecting the data outweighs the value of using them.

Mr Swinney: If baseline data are not in place to allow us to establish a starting point and we say that having a range of measures to prove that an achievement has been made is unjustifiable financially and in other resource terms, we are in danger of being unable to assess realistically a programme's effectiveness. Do you accept the need, which I take from Audit Scotland's letter, for a quantum improvement in the volume of information that is available before anyone can be confident that so-called efficiency savings have been achieved?

John Elvidge: I recognise that at the heart of your discussion with Mr McCabe is the question of what an adequate standard of proof is. We have acknowledged that some additional data that neither we nor other organisations had a prior business need to collect will need to be collected in various ways to show delivery of efficiency savings. Therefore, some form of additional collection is built into the plans. Your disagreement with Mr McCabe seems to be about where precisely one draws the line in that process. I do not wish to position myself between you and Mr McCabe on that subject.

The Convener: You laid out your information requirements to meet your responsibilities as accountable officer to protect the public purse and ensure value for money. Is what you ask for or deem necessary different from what Audit Scotland requires for its purposes, which are broadly similar?

John Elvidge: Beyond a point, we are in the realm of judgment about evidence standards and the cost-versus-benefit balance about which we have talked. It seems to be expected that different

individuals and organisations will judge that balance differently, even though they may all be motivated by a concern for value for money. Therefore, it is not axiomatic that I, as accountable officer, and Audit Scotland, with its responsibilities, will automatically arrive at precisely the same view on how that balance should be struck.

We return to my points about the accountable officer role. My responsibility is to ensure that what happens is not on the unacceptable side of a minimum standard. Audit Scotland's role is to take a view on where an optimum position in the range of possibilities might lie. Those functions are different.

Mr Swinney: Do you as permanent secretary have a responsibility in relation to communication of the Government's message? The Government might claim that £1.2 billion of efficiency savings will be made by 2007-08. As permanent secretary, do you have a responsibility to ensure that that statement is justifiable?

John Elvidge: Yes. I have a responsibility to ensure that such statements are made in good faith and are supportable. That does not take one automatically to the magic answer to the question of what constitutes the right support.

Mr Swinney: In effect, then, there are two tests. One is to do with whether Audit Scotland has a view that the information can be signed off and the other is to do with whether you, as permanent secretary, believe that it is credible for the Government to say that it has made £1.2 billion in savings.

John Elvidge: Yes. You are right to say that those are different roles. The second one is not part of the accountable officer role; it is part of my responsibility as permanent secretary to ensure that all the statements that ministers make in their ministerial capacity are made in good faith. You are right to say that that is a different dimension of my responsibilities.

The Convener: Audit Scotland has said that financial information is not enough for its purposes of demonstrating that the financial savings and efficiency improvements have been realised, and that outturn measures for services are required.

In the context of your definition of your role, do you think that output measures are required for you to satisfy yourself that what is being stated is being delivered?

John Elvidge: Yes. Since efficiency is the measure of a relationship between costs and outputs, that must, in principle, be true. However, that does not take one easily away from the point in the Audit Scotland letter about the intrinsic difficulty of measuring many outputs in the public sector. Some outputs are easily measured but

many others are not. One of the challenges is that a large chunk of the responsibilities of the Executive do not have easily measurable outputs. Again, I will end up having to make a judgment about what measurement I need.

For the Executive's activity, that might be less to do with measurement than with observing activity. It ought to be apparent to me, managerially, whether things that are designed to happen are not happening. Therefore, that shortfall in output ought to be apparent to me without my needing to construct measurement systems to achieve that knowledge.

Mr Swinney: On what you said about the role of the permanent secretary in relation to ministers' statements, do you think that it was wise for the Executive to state on 8 September that it will publish targets and figures only when it is convinced that they are robust and deliverable and then go on to publish the document that we have before us today?

John Elvidge: I do not see any inconsistency between the statement and the action.

Dr Murray: Are you the accountable officer or the accounting officer? They are slightly different things.

John Elvidge: They are not different things. The Scotland Act 1998 uses the term "accountable officer", while the UK Government's framework uses the term "accounting officer"—same animal, different names.

Dr Murray: My question builds on the perception that the Scottish Executive departments are not being asked to make the same level of efficiency savings as other agencies are. Since devolution, the Executive has grown. It is not surprising that it is bigger than the Scottish Office was, because of the support system that is required to cope with the fact that there are more ministers and so on. However, as accountable officer, how do you demonstrate that the operation of the civil service represents value for money?

John Elvidge: That is a big challenge because of the particular difficulty of measuring outputs at the level of the Executive. As you know, the Executive is in almost no respect the deliverer of ultimate outputs. Therefore, in almost all respects, its role is intermediate. Those elements that we can measure seem to me to be an unsatisfactory proxy for the business of the organisation. I can easily enough talk about the number of pieces of legislation that we support ministers to take through the Parliament, and we commonly talk about the number of pieces of ministerial correspondence, the number of parliamentary questions, the number of requests under the Freedom of Information Act 2000 and so on. We can talk about all those matters, and I can draw

some ratios. However, I do not think that that is the best way of getting at value of money, because it leaves too much of the organisation's real business unmeasured.

I find it more helpful to benchmark against other Governments and to compare, for example, our spending on the civil service proportionate to some measure of the volume of activity with their spending. That is the significance of benchmarking against the UK Government. Even when it has achieved all its efficiency targets, it will spend more on the civil service as a proportion of total activity measured by expenditure than we are spending now and certainly than we shall spend when we have carried through our efficient government reductions.

12:30

Dr Murray: Is that not because the UK civil service delivers more front-line services?

John Elvidge: Actually, I am not sure that that is the case. The benchmark data that I referred to cover the totality of civil service employees in Scotland. That includes the whole of the Scottish Prison Service, which accounts for a huge proportion of total civil service activity within the Executive. Allowing for that factor in assessing benchmarking perhaps counts in our favour rather than in the UK Government's favour.

Derek Brownlee: There have been fairly significant real-terms increases in Executive spending over recent years. Do you have evidence that the monitorable outputs for that spending have grown in line with its rate of increase?

John Elvidge: We have evidence on almost every output that can be measured. In the short term, do those outputs move in line with spending increases? No, that does not happen, either here or in other places. Has the expenditure-to-outputs ratio improved over that period? No, but that truth is generally demonstrable across the range of Government activities elsewhere. The more challenging question is whether any of that will happen over a long time. One can say only that it is too soon to tell.

Derek Brownlee: I do not want to quote you inaccurately, but you said something to the effect that you did not want to suggest that there was a limit to savings or that we had reached such a point yet. However, in some of your areas of responsibility, there is a limit to the amount of savings that can be made without having to adjust services. For example, at some point, you must have to stop carrying out functions instead of simply making incremental savings.

John Elvidge: That must be true in principle. All organisations have a point at which they shift from achieving efficiencies to cutting costs and reducing outputs accordingly. The managerial challenge is to find that transition point.

Do I think that we have reached a state of perfect efficiency? No, but then I do not know of any organisation that has.

Derek Brownlee: That is a fair point. Where, then, along the spectrum of efficiency are we?

John Elvidge: That takes me back to what I said to Dr Murray about benchmarking. The benchmarking suggests that we are a reasonably long way along the spectrum of achieving efficiency in terms of that kind of comparison. What I mean by that is that shifting very many percentage points—or, to be accurate, tenths of percentage points—will prove to be challenging in relation to the delivery of genuine efficiency.

Two years ago, the comparison between the UK Government and the Scottish Executive showed that the figure for the UK Government was 4.3 per cent of expenditure on civil service, relative to total expenditure, as compared to 2.6 per cent in Scotland. Clearly, our efficiency was not double that of the UK Government, but we were more than one and a half times more efficient. By definition, the benchmarking suggests that we must be getting into the areas of efficiency that are more challenging to deliver.

Some of the things that we can point to having done—things that are at the heart of the efficiency debate—reinforce that. As I said earlier, both the Scottish Executive and the UK Government have put procurement at the heart of the efficiency process; it is the largest single source of efficiency. In Scotland, we have built an e-procurement system that is capable of serving the whole of the public sector. It has been widely praised, won a number of industry awards and is regarded, certainly by the *Financial Times*, as a leading-edge, world-class system of its kind.

Making such progress in those significant areas calls into question any further progress that we can squeeze out, particularly given that our present projected efficiency savings take into account the projected increase in the volume of transactions that will go through the e-procurement system. Inevitably, one will begin to hit diminishing returns in some of the key areas.

Mark Ballard: My question is on the challenge of continuing to squeeze out efficiencies. On the current plans for savings as a percentage of the departmental expenditure limit, it seems that they amount to 1.8 per cent in 2005-06, 2.9 per cent in 2006-07 and 4.4 per cent in 2007-08. However, to achieve that total of 4.4 per cent, on a year-by-year basis, that amounts to a 1.8 per cent cut in

the first year, which declines to a 1.1 per cent cut in the second year and gives a 1.5 per cent cut in the third year.

Using the analogy of trying to turn the supertanker round, one could say that you started slowly and then proceeded at a greater pace. However, in this case, the opposite appears to be the case: you started at a fast pace only for the speed to decline. Is that because you have squeezed out most of the easy efficiencies, or is there a lack of ambition when it comes to future efficiency gains?

John Elvidge: No. That takes me back to my earlier point. The figures that you used are minimum figures for the savings that have to be achieved, all of which are predicated on a standstill budget. The savings are measures of what would have to be delivered simply for the organisation to stand absolutely still. However, the reality is that neither activity nor some of our cost pressures will stand absolutely still. The actual scale of the efficiency savings that are delivered will be larger than those numbers. Because the uncertainties about costs and activity grow over time, the reality is likely to be that the scale of the challenge grows over time—notwithstanding the fact that those baseline figures give a different impression.

Mark Ballard: Fair enough. There has been discussion of, and reports to previous meetings of the committee about, the fact that ministers are considering taking the efficiency work up to 2010 and have already set their targets for that period. Given the pressures that you have talked about, what figures are being set, and if, as you say, the figure for 2007-08 is a minimum, how can the process of continuing the programme to 2010 work?

John Elvidge: How can it work? To an extent, that is a question of keeping up the pressure on us as well as on other parts of the public sector. It is very difficult to know, at this point in time, what the component parts of those additional savings are going to be. In essence, it is a statement of political judgment that further savings of a particular magnitude must, in principle, be achievable. One needs time to work out how that is translated into a particular set of efficiency measures.

Mark Ballard: As you said earlier, the pattern might change. You talked about the pattern in relation to the enterprise networks. Do you see those efficiency savings being of the same magnitude as the 1.8 per cent saving that we saw for 2005-06?

John Elvidge: The honest answer is that I have absolutely no idea. That is very much a political judgment about where ministers wish to set the

scale of the challenge. I would be very surprised if the scale of the challenge were any less than it has been in the period up to 2008.

Jim Mather: I would like to return to the baseline data issue, to see whether we can inject some additional value into the process. If we are to have genuine efficiency savings, we have to start off with all operational levels and the macro-entity under some level of statistical control, so that we can monitor what is going to be incremental by way of improvement over time—and perpetually. I am worried that, in the absence of that control, not only are we asking civil servants and members of the public services in the local government area to fly blind, but we are putting in jeopardy the credibility of Scotland and the Executive with the business and political media, with competitors, with potential inward investors and with members of our own business community, who are going through exactly that process of achieving greater efficiency after, first of all, having their operations under statistical control. The absence of statistical control really makes the whole thing, sadly, a bit of a laughing stock.

12:45

John Elvidge: I paid particular attention to the bit of your exchanges with Mr McCabe that dealt with that, as it presented an interesting set of ideas. There is an immense volume of statistical data, and it is difficult to argue that there are key outcomes from the public sector that are not measured. Opinions vary about that, but we certainly measure what is currently the consensus view of the key outcomes in each area of business.

It is not that the toolkit for statistical control is not there. We are perfectly able to track such things and, to an extent, we do. They are the bread and butter of political debate. For example, what is performance like in schools, what proportion of young people are going on to tertiary education and what is happening to mortality rates? Those are all measured and the information is common currency.

What ministers have not chosen to do—as I understand it, the committee is arguing that they should do this—is to construct a definitive set of those measures. That could be some version of the happiness index that some people argue countries should use. That index would comprise gross domestic product plus a series of social measures. I have no professional difficulty with how one would produce such a thing, but the question whether one does so is clearly political, not professional.

Jim Mather: That is the one thing on which I wish to take issue with you. I acknowledge the political judgment that is required to set a target, to approve the programme whereby that target is achieved and to be responsible for that target. In the end, it is the responsibility of the civil service to have a mechanism in place to measure and monitor progress and to report back through ministers. I cannot imagine a senior captain of industry doing the same three things—setting the target, approving the programme and stepping up the target—but then not expecting his statisticians, accountants and so on to deliver the data that will allow him to put the proposition to his shareholders and the wider community.

John Elvidge: My argument is that we are doing precisely that. I am not conscious of any key outcome that we do not measure. You are arguing that it is our job to measure things—and we are measuring them. The argument is essentially about the use that is made of those data, rather than about their existence.

The Convener: In relation to the savings package and the efficiency exercise, Audit Scotland has identified some deficiencies in information and is highlighting the requirement to put baselines on a firmer basis. Even judging from our earlier robust exchange, it is clear that ministers acknowledge the need to put flesh on the bones of baselines and to improve financial information and output information. We take that as a given.

If I understand correctly, Caroline Gardner said that her work in validating or auditing the process will depend on reports given to accountable officers. You are the chief accountable officer in that regard. It is for you to put the mechanisms in place that allow us to carry out the necessary testing and to provide the required information. Am I wrong about that?

John Elvidge: I think that Caroline Gardner is saying that she cannot audit what is not there.

The Convener: Yes.

John Elvidge: She is saying that she would expect the bread and butter of what Audit Scotland audits to be reports that flow through the management process for the purposes of tracking. That seems right to me. I think that auditors should audit the things that management requires for its purposes rather than impose additional demands on organisations. I think that your interpretation of the process is right, but I still do not see that it takes you any nearer the question that you were discussing with Mr McCabe, about what the precise content of the report should be.

Mr Swinney: If the Government's efficiency savings initiative has been genuine and effective, should we not have confidence in the

measurements that are taken to substantiate the process in order to satisfy parliamentary and public opinion?

The position is that Audit Scotland, which Parliament established as an independent body, requires sufficient detail before it will be satisfied about the process. However, the minister's response is that the Executive has sufficient measures in place to be comfortable about its judgment. Further, you are saying that this comes down to a matter of judgment. However, if I interpret the committee's position correctly, it feels that all that should be there is not there.

John Elvidge: No. I think that Mr McCabe said that the process is evolving. I regard us as being in partnership with Audit Scotland to work out how best to do something that one cannot simply take down off the shelf. It seems to me that both Mr McCabe and Audit Scotland are saying that the process will have to develop and that they must still make judgments in some areas about how precisely to get the quality of evidence on particular efficiency savings that they would like to have. I do not recognise the situation as being one in which Mr McCabe says that the Executive has reached the limit of what can be done and someone else says that it has not.

Mr Swinney: It certainly sounded like that when he came into the room, I must say—that was just a pejorative remark.

The Convener: To put it another way, there is a shared recognition that all the mechanisms were in place to account adequately for and audit the process from the beginning. The Executive has indicated that, and it is also the Finance Committee's and Audit Scotland's view. You are saying, Mr Elvidge, that there is a continuing debate, or negotiation, between Audit Scotland and the Executive on the information that is required to provide the assurances that Audit Scotland feels it requires. Can you assure us that, as accountable officer, you will co-operate with Audit Scotland to the fullest extent in ensuring that it has the information that it needs to audit the efficiencies and provide the reassurances that it feels are appropriate?

John Elvidge: The short answer is yes, but let me elaborate on that. I emphasise that I do not think that it is right for the audit process to ask for information that is not required for management purposes—audit should not be an additional burden on organisations. Therefore, because I believe that there will be adequate information for management purposes, I think that I can say that all that information will be freely available to Audit Scotland. The other important point to make is that Audit Scotland's role in the process is, to a substantial extent, the result of an invitation from the Executive to act as adviser and partner in

developing the framework. We are not talking about Audit Scotland acting in its formal audit capacity in this case. Therefore, it would be wrong to postulate an adversarial model in which things might be withheld from Audit Scotland or there might be a difference of purpose, because that would contradict the way in which the relationship was entered into. That is my qualified yes.

The Convener: Okay. We can take that qualified yes and look forward to further information in due course from you, ministers and other officials.

On behalf of the committee, I thank you for coming along to the meeting and responding to our questions. Clearly, we will continue with work in this area as part of our business and we look forward to having a chance to discuss the issues with you again at some stage.

John Elvidge: I also look forward to my next appearance. Thank you.

Financial Memoranda

12:53

The Convener: We have two brief items to deal with. Members know that this is our final meeting until 25 October 2005. The Carnegie awards on 4 October mean that we will not meet then, and the two-week October recess follows that. It is likely that the Executive will introduce a couple of bills during that period. Normally, it would be for the committee to decide at a public meeting the level of scrutiny that each financial memorandum should receive. However, as there will be no meetings during that period, I ask members to delegate to me the authority to determine an appropriate level of scrutiny. That would allow the clerks to set in motion the evidence sessions that we may require to conduct effective scrutiny. I stress that such delegated authority would last only for this short period and that on our return we would revert to normal procedure. Do members agree to delegate authority to me to decide appropriate levels of scrutiny for the financial memoranda to any bills that are introduced in the next three weeks?

Members *indicated agreement.*

The Convener: We now come to our final item, which is our draft submission to the Subordinate Legislation Committee for its inquiry into the regulatory framework in Scotland. As previously agreed, this item will be taken in private.

12:55

Meeting continued in private until 12:56.

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