

FINANCE COMMITTEE

Tuesday 5 September 2006

Session 2

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FINANCE COMMITTEE **20th Meeting 2006, 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

Shiona Baird (North East Scotland) (Green)

Robin Harper (Lothians) (Green)

Janis Hughes (Glasgow Rutherglen) (Lab)

Alex Neil (Central Scotland) (SNP)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Professor Arthur Midwinter (Adviser)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

Rosalind Wheeler

ASSISTANT CLERK

Kristin Mitchell

LOCATION

Committee Room 1

Scottish Parliament

Finance Committee

Tuesday 5 September 2006

[THE CONVENER *opened the meeting at 10:03*]

Public Finance (Management)

The Convener (Des McNulty): Good morning. I welcome members to the 20th meeting of the Finance Committee this year. I also welcome the press and public. In particular, I welcome Wendy Alexander back to us. I am delighted that she has rejoined the committee. As usual, I remind people to turn off their pagers and mobile phones.

Agenda item 1 is to consider a report on the Scottish Executive's management of public finances, which has been produced by our adviser, Arthur Midwinter. It builds on two background papers, which the committee has discussed. We also agreed that I should write to the permanent secretary about monitoring best value in Executive departments. My letter, along with his response, is attached to Arthur's report.

I invite Arthur to introduce his report, which we can then discuss.

Professor Arthur Midwinter (Adviser): As members have already seen earlier papers on the subject, I propose quickly to summarise the report and take any questions of detail that members want to ask.

The report is an attempt to examine the Executive's management of public finances, which is identified in the "Framework for Economic Development in Scotland" as one of the five drivers of economic growth. The suggestion was that through the introduction of a range of financial instruments, the Executive was enhancing its capacity to improve and grow the output of the public sector. Members will soon hear a related report on the economic impact of the Scottish budget from outside consultants.

At the heart of the issue is the on-going problem of measuring public sector output for economic growth purposes. The Executive is considering ways of improving that but, for the moment, it is still working on the assumption that expenditure equals output, so that any growth in expenditure is immediately recorded as a pro rata growth in output. That causes all sorts of problems. In particular, it raises the question how the Finance Committee can properly assess the Executive's performance in managing public finances if we cannot measure public sector output in a meaningful way. The answer is, "With difficulty."

FEDS specifies the spending review as the framework document for the budget, with objectives and targets for each portfolio. Even the spending review is not particularly helpful for our examination of the economic impact, because it does not comprehensively or systematically measure public sector output. It has a number of targets for each portfolio, some of which are process based, some output based, and others outcome based. It is not necessarily a document that allows us to assess the Executive's economic performance.

That raises another question. From previous discussions with the Minister for Finance and Public Service Reform, we found it impossible to get definitions of how much is spent on growing the economy, closing the opportunity gap or sustainable development. That makes it difficult to see how we can reasonably be expected to assess the economic impact of the budget at a strategic level.

The three items that we have considered—pre-expenditure assessments, best-value reviews and the efficient government initiative—differ greatly in what they try to achieve. PEAs focus on microeconomic decisions on single projects or programmes, and the assessments provide a judgment on their economic, social and environmental impact. In my view, they are mostly cost benefit analyses without the quantification. They are heavily judgmental. In practice, such expenditure meets wider policy objectives than simply growth and economic output, which raises the question how that instrument promotes growth and output. We do not know the answer.

Best-value reviews have largely been concerned with processes. They are focused on the effectiveness of Executive oversight of service delivery bodies. That means that they examine the mechanisms whereby the Executive seeks to influence what delivery bodies do. There have been reports on performance management systems, grant systems and service contract systems, but nothing has looked at the programmes' impact as a whole on Scotland. That raises the difficult question how we can assess the effectiveness of the programmes in approving service delivery in such a way.

The letter to which the convener referred in his opening remarks is interesting. It gives us a good idea of the problems in trying to assess the best-value approach. Earlier this year, Peter MacMahon of *The Scotsman* described an appearance by Mr Elvidge before this committee as a

"masterclass in the sophisticated arts of the modern mandarin".

I point members to paragraph 2 of Mr Elvidge's letter, which explains how the Executive has been developing best value. It says:

"A corporate approach has been taken to developing a flexible framework that recognises the uniqueness of the Executive's core business and the specific responsibilities of each department."

I guess that most of you are brighter than I am because I cannot work out what that means. It allows departments to do more or less what they like. Although we sent the Executive a letter to ask how departments achieve best value, all that we received back was another general statement, which was not at all helpful.

By contrast, councils are assessed independently by the Accounts Commission against a range of statutory performance indicators and financial and other comparisons with like authorities. A rigorous and systematic process is going on in local government to try to determine whether a council is delivering best value. At the end of a best-value regime that is supposed to apply to the whole of Scotland, we know which individual councils are improving education, residential care, library provision or whatever, but not whether the regime is delivering improvement throughout Scotland as a whole. That is the big gap in the exercise. The Executive is focusing on the process rather than on the outcome of public service delivery. The Executive is required to address whether its grant systems are effective in delivering outcomes rather than just looking at the grant systems in their own right.

How does best value improve public sector growth? The answer is that nobody knows on the basis of the information in the public domain.

The third of the mechanisms is efficient government, which is a means of transferring resources from support to front-line services. Despite its title, it is a savings exercise and does not measure efficiency in any rigorous way. The new annual report that has come out simply lists savings but, as Caroline Gardner said in an earlier Audit Scotland report,

"efficiency savings cannot be measured through changes in expenditure alone."

What concerned me even more about the new annual report was the claim that the efficient government—

The Convener: Has the report been published yet?

Professor Midwinter: I assumed so, but perhaps not. I apologise—I thought that it was already out.

One of my concerns is about the suggestion that there has been a 5 per cent growth in output, which was made in a letter to the convener from, I

think, the Minister for Finance and Public Service Reform. The minister suggested that adding the money that was released from the exercise to the 3.5 per cent per annum growth in the departmental expenditure limit delivered the 5 per cent growth in output. Given the definition of how economic growth in the public sector is measured, that 1.5 per cent is being double-counted. The way in which economic growth is measured does not distinguish between spending on support services and spending on front-line services—it is simply expenditure. We still do not know what the improvement in output has been as a result of the efficient government exercise. As with the other two mechanisms—pre-expenditure assessments and best-value reviews—I cannot see how the efficient government initiative can be described as promoting growth in the public sector.

To summarise, PEAs provide useful background information about resource allocation decisions on specific projects. The efficient government initiative generated savings to expand services at the front line through reprioritisation rather than efficiency. Nothing that I have seen in the documentation on best value or in the permanent secretary's letter to the convener convinces me that the Executive has a robust approach to continuous improvement.

The Executive has provided further evidence of the problems with which we have been grappling in practice in trying to link the Executive's top priority to its management of the budget. We have problems in measuring economic growth; problems in measuring spending that supports economic growth as a priority; and problems in measuring performance in delivering economic growth in the absence of a target in the spending review documents. The necessary links between spending and outputs cannot be made within the current range of financial instruments at which we have been looking. It is time for a rethink.

10:15

The Convener: Thanks very much, Arthur. On the exchange of correspondence between me and the permanent secretary, you are right that I asked for specific information, particularly on departmental comparisons. Whatever the response says, it does not provide the information that I asked for. We should pursue that information further, although we might want to pursue other matters that come out of our discussion with Mr Elvidge or indeed with the minister. I expect the minister to appear before us in a couple of weeks to speak specifically about end-year flexibility.

I invite members to ask questions of Professor Midwinter. If anyone wishes to raise points of clarification, now might be a good time before we move on to other contributions.

Mr Andrew Arbuckle (Mid Scotland and Fife) (LD): I do not ask for clarification; I start from where Arthur Midwinter left off. He said that it was time for a rethink. Will he elaborate on that? Does he see such a rethink as refinement of the current programmes so that their failings can be addressed, or does he envisage a better overall system that would deliver the objectives that we want?

Professor Midwinter: That takes me slightly beyond my remit: is the convener happy for me to answer?

The Convener *indicated agreement.*

Professor Midwinter: The main problem is the adoption of economic growth as the top priority because it is an area in which the Executive has no macroeconomic and limited microeconomic powers. Therefore, the impact that the budget is likely to have on economic growth will be minimal. The Executive has a locus in more operational measures such as employment or investment, which would be more useful economic measures. However, if the Executive tells us that it does not know how much it spends on promoting economic growth and it does not have a target for it, I find it difficult to see that economic growth is regarded as a top priority. When I spoke about needing a rethink, I meant a fundamental rethink about both the objectives and the mechanisms through which we operate.

I do not suggest that some of the current mechanisms are unhelpful—they are just not doing what is claimed for them in FEDS, which is that they are instruments for promoting growth in public sector output.

Dr Elaine Murray (Dumfries) (Lab): In paragraph 90 of your paper, you mention the report of the independent baseline budget review group. At the time of writing your paper, that report was five months late and now it is over six months late. Is there any news about when it might be published and the reasons for the delay?

Professor Midwinter: Does someone else want to answer that?

The Convener: It was suggested in a newspaper article about 10 days ago that the group's report would not be published for some considerable time.

Dr Murray: The Executive has not confirmed that.

The Convener: No, ministers have not yet confirmed it. I know that members have comments to make about the matter.

Professor Midwinter: When we originally agreed the themes that I would consider in my paper, it was intended that the output of the

baseline budget review group would be one of the four areas of work that I would look at. However, because that report has not been published, I have not been able to look at it. When I wrote my paper, I expected the report to be delivered and assumed that I would report on it to the committee as soon as it came out.

Mr John Swinney (North Tayside) (SNP): I wanted to raise another point, but I will follow on from Elaine Murray's question. To be as charitable as I can given the press comment and the Executive statements that the baseline budget review group's report is unlikely to be published, this is a change in the position that we were told about by the minister in committee. I am keen to find out the Executive's position on the matter. Why were we told some months ago that the report would be published and why are we now being told through a spokesman's comment to the newspapers that it has not been published and that it will not be published until after the comprehensive spending review has taken its course? I do not know how we are supposed to have a mature, enlightened debate about the priorities for public expenditure if we do not have access to that type of document.

I hope that as a result of our discussion we will at least make representation to the Executive about the fact that, according to comments in the newspapers, the position about which the committee was told appears to have changed. If the position has changed, we should ask the Executive to provide an explanation and reconsider the matter. If necessary, we should ask the minister who gave us commitments some months ago to come before the committee again to explain what on earth is going on.

The Convener: I have already asked the minister for a letter that makes clear the Executive's position. When we receive the letter, I hope that we will be able to ascertain how many issues we need to pursue and how we should pursue them.

Derek Brownlee (South of Scotland) (Con): My point is perhaps slightly off topic. In his paper, Arthur Midwinter seems to conclude that there is some merit in the best-value process that is being undertaken. However—I might be putting words into his mouth—it seems that he does not think that the process is achieving its potential throughout the public sector. If a model was adopted that was more like the local government system, so that best-value reports were routinely published and there was an element of independent oversight, would the process be more rigorous and more capable of delivering its underlying aims? Perhaps that is an unfair question.

Professor Midwinter: Such a model would be more rigorous. Local authorities are furthest ahead on best value. They have got past the stage of doing best-value reviews and are now required to operate their entire planning and budgetary systems on principles of best value. As a result, every three years each authority is required to assess its performance and show how it improved service delivery. If the Accounts Commission is unhappy with a report, it sets out action points for the authority, so that the authority will be able to show how it has addressed weaknesses in the system.

We have received only cursory information and two or three examples of best-value reports from the Executive. On the basis of those reports and the letter from the permanent secretary, it seems that the Executive treats best value as an internal exercise. I see no reason why, for example, some of the better statutory performance indicators in health and local government could not be converted into national indicators, on which Audit Scotland could report annually.

My point links to one of my wider concerns about the spending review process. Later this year, we will receive the outturn results for the 2002 spending review—four years after the review. There is some benefit in a system that allows us to consider what has happened over the longer term, but there would be merit in having a set of performance indicators that could be independently evaluated annually by Audit Scotland or a similar body. Such an approach would be more transparent and rigorous.

Mark Ballard (Lothians) (Green): In your paper, you say that FEDS identifies PEAs, best value and efficient government as mechanisms for analysing public finances. However, it struck me as I read the paper that there does not appear to be much coherence between the three mechanisms. In particular, the critical and rigorous evaluation of service provision that the best-value process seeks to provide through the framework of the four Cs—challenge, consult, compare and compete—seems to be at odds with the efficient government approach, whereby efficiencies are sought so that money can be redirected to priority front-line services. Best value and efficient government seem to represent quite different approaches to the management of public finances. What are your thoughts on that? Has the issue presented problems?

Professor Midwinter: I do not know whether members of the committee were privy to the initial decisions about the mechanisms, but I understand that pre-expenditure assessments developed out of a partnership agreement commitment to economic, social and environmental assessment of every new spending proposal. Unlike PEAs,

best-value reviews take place after the event. The efficient government agenda is not about serious policy analysis after the event; it is about finding savings and transferring the money into front-line services. Efficient government is not akin to the 1970s system of programme analysis and review, which operated for more than a decade and provided a much more in-depth consideration of the benefits of expenditure. Although the three mechanisms are listed together, they are very different instruments. I think that the most recent Labour Party manifesto contained a commitment to introduce best-value regimes, but I do not think that efficient government featured in any manifesto—it appeared after the event. There is no doubt that all those mechanisms have been driven by politicians.

I have carried out best-value reviews for local authorities. The four Cs offer a useful framework, in that they help us to kick over stones and consider matters that we might not consider in the normal course of events. I have corresponded with Executive officials who appear to take the line that the Executive is unique and cannot be compared with anything else, but in my view comparisons are possible with the other devolved Administrations or with regional Governments in Europe.

Local authorities continue to carry out best-value reviews, but the focus has shifted to the best-value audit of an authority's entire system. Most of the people in local authorities to whom I have spoken think that the best-value review was beneficial, because it required them to ask probing questions such as, "Why are we still providing this service?" and "Do we need to provide it?" The exercise enabled people to consider the fundamentals in a way that the normal budget process, in which change would happen only at the margins, would not do. I do not know whether my answer has been helpful.

Mark Ballard: It was helpful, but I am interested in what you think are the practical consequences for public finances of having two different systems. On one hand, we have the four-Cs approach, pre-expenditure assessment and rigorous post-expenditure analysis; on the other, we have efficient government, which, as you said, is based on a different principle, in that it is always about shifting resources to front-line services.

Professor Midwinter: It is hard to tell what happens to the reviews, because the documents that are produced are internal. PEAs are regarded as background information for ministers when they take decisions; they are not published. I have been advised that in some cases a PEA is provided simply as part of the brief that is given to a minister before a decision is taken. I am on the outside and, from the papers that I have seen, it is

hard to assess the consequences of PEAs and it is impossible to ascertain the consequences of best-value reviews, because the reports are not published. At least we have more information on efficient government.

The mechanisms are not achieving their objective if they are supposed to offer a micro-level contribution to the FEDS objective. The three cross-cutting priorities in the budget documents and spending plans are also in FEDS and, with regional development, make up the four economic objectives, so there is a significant overlap between FEDS and the budget documents. However, the current system is not helping us to assess priorities, because information is not available.

Mr Swinney: Is it fair to say that you have no information about the shape of the best-value process that is undertaken in departments?

Professor Midwinter: Departmental business plans refer to best value. In my paper, I mentioned a department that simply said that the principles of best value run through everything that it does. However, there is no systematic exposition of the best-value process in departments. We have sought such information from the Executive because only when we receive it can we properly assess the rigour and robustness of the process. Each department writes differently about how it will deliver best value. I did not feel able to reach a judgment on the basis of business plans that, in some cases, consisted of one or two paragraphs.

10:30

Mr Swinney: Secondly, further to another point that Mark Ballard raised, it strikes me that it would be logical for there to be a direct relationship between the concepts of best value and efficient government, as what is learned from the best-value process should feed into the efficient government process. Is there any obvious systematic link between the two?

Professor Midwinter: There is certainly an overlap. I think that the efficient government team sees itself as taking forward best value. The view was that the initial best-value reviews were more concerned with improving service outputs, whereas the efficient government initiative would balance that by also looking at costs. There seemed to be very few costs data in the best-value reviews that we saw, but I was told that savings were not necessarily the purpose of a best-value review. That is certainly the case in local government, where the purpose of a best-value review is to ask how the service can be improved. Therefore, the two issues were seen as being related. The view was that efficient

government adds to the process because it asks questions about costs.

Mr Swinney: Are you satisfied that there is a linkage between the two processes, if we know what the best-value reviews are about?

Professor Midwinter: I do not have enough knowledge about best value to know whether there is a link.

Mr Swinney: In response to Andrew Arbuckle, you referred to the fact that economic growth had been selected as the top priority. I cannot remember the word that you used but you were quite dismissive about the Executive's ability to deliver on that priority. Is that because of the absence of mechanisms, tests and targets to satisfy an observer that economic growth is truly the top priority and is being enhanced by the steps taken by the Executive, or is it because of the absence of macroeconomic powers?

Professor Midwinter: It is both. I tried to be as clear as I could in my paper because I know that the issue divides committee members. In my view, we have a devolved Government that does not have macroeconomic powers. Therefore, given the Executive's limited capacity to influence growth, I am not convinced that making economic growth the top priority was a sensible in-house decision.

I do not want to get into the argument about the devolved Government's powers—Jim Mather and others are quite capable of articulating those arguments, as is Wendy Alexander—but I was not convinced that that was a sensible top priority, given the devolved Government's range of functions.

Jim Mather (Highlands and Islands) (SNP): We accept full culpability in that regard—

Ms Wendy Alexander (Paisley North) (Lab): Hear, hear.

Mr Frank McAveety (Glasgow Shettleston) (Lab): I feel like we are in the "Dragon's Den" again. It is frightening.

Jim Mather: We will continue to develop that culpability over time. The fundamental point is that, in real economies, pro-growth spend probably accounts for 100 per cent of spend.

I welcome the thinking in Arthur Midwinter's paper, but I was particularly struck by one point. By the way, I should say that it is a great paper. It will be apparent that I have paid scrupulous attention to it—

The Convener: The SNP finance spokesperson has obviously been doing some colouring in.

Mr McAveety: He is like someone on their first day back at school showing off.

Jim Mather: The colouring in has worked.

In paragraph 78 of the paper, the final sentence states:

“The central argument is that public sector performance should be judged on the outcomes they achieve.”

While recognising the validity of that statement, I think that there is a key issue concerning the dilemma as to whether pre-expenditure assessments, best value and efficient government actually deliver anything. We need to augment that sentence, perhaps by adding the words “consistently, positively and incrementally over time”. We have focuses on individual events, such as line items in the efficiency technical notes or particular best-value reviews, but we do not have a commitment to continuous improvement of the system or to the achieving of incrementally better overarching results. We got something like that from Malcolm Chisholm.

Professor Midwinter: The Executive has stated that it is in favour of making such a commitment, but we do not have a mechanism to see whether that is happening.

Jim Mather: We also do not have the statistical base with which to measure the starting place or where we have got to over time. Those are such fundamental flaws that, if we were to bring in one of the lean or six sigma consultants who do those jobs in industry, they would fall about the floor laughing at the position that we are in.

Professor Midwinter: I am certainly not a lean consultant.

Mr Swinney: You are looking much leaner after the summer.

Ms Alexander: Arthur Midwinter’s paper was certainly a meaty paper for me to come back to. However, the resolution that I am making on my return is that I will try to practise a less-is-more approach.

Clearly, the paper identifies the three appraisal mechanisms for the evaluation of expenditure: the pre-expenditure assessments; the best-value reviews; and the efficient government initiative. However, my sense is that, although it is wholly appropriate to have internal pre-expenditure assessments and to have internal best-value reviews that take an in-depth look at whether a service is delivering, it is arguable that those are internal management mechanisms for the Executive to use prior to the publication of its budget. Although Arthur Midwinter’s paper is very interesting, a question needs to be asked about the extent to which those processes should be public and whether the rest of the world has a locus in them. However, given that the third of those mechanisms—efficient government—has been flagged up publicly, is being externally

audited and is meant to focus on outcomes, I think that that is the mechanism in which our committee has the strongest locus.

As one who has been away from things during the recent past, I have a question about the statement in paragraph 89, which comes—this may suggest that I did not go through the paper with the same diligence as Jim Mather did—right at the end of the paper. Paragraph 89 states:

“Finally, if Efficient Government is to remain in its current form, then baseline output data and the monitoring of changes is necessary to make a reality of efficiency savings. There is a requirement for greater transparency over the delivery of savings and the re-allocation of resources, which should be comprehensively reported to Parliament.”

My question is what we do next and how we make that possible. What are the steps to deliver that? Given that the efficient government initiative is the most public and transparent of the three processes and is meant to be externally audited, what are the next steps that we should take following that conclusion?

The Convener: Before Arthur Midwinter responds, let me clarify that our intention is to take evidence from Audit Scotland once it has audited the conclusions. That is within our forward programme. That might answer one part of Wendy Alexander’s question.

Professor Midwinter: To deal with the first part of Wendy Alexander’s question, I agree with her on the issue of PEAs but I am not so convinced on the issue of best-value reviews, given the high profile that those have for all other public sector organisations and given that they are usually put into the public domain.

Ms Alexander: That is a fair point.

Professor Midwinter: On the efficient government initiative, we received the updated efficiency technical notes in Wendy Alexander’s absence, but most of those still fail to include output measures that would allow us to perform efficiency calculations. We cannot produce input to output ratios from them. I understand that another set of efficiency technical notes—sorry, I was about to mention another report that has not yet been published—is due in September or later.

Ms Alexander: Has there been any public reporting on outcomes of the process since it was put in place as part of the Scottish spending review 2004?

The Convener: A report is to be published relatively soon.

Professor Midwinter: Yes, a report is about to be published. There is a commitment to have an annual report on outturns, which is about to be published.

As I understand it, the position is that Audit Scotland is now in the process of evaluating the new technical notes to see whether they overcome its objections, which were very similar to mine. After that, I think that the committee will have a session with the Minister for Finance and Public Service Reform. However, as I think I have said before, I do not think that we will resolve the issues in this cycle. If the Executive continues with this system, there must be output measures and clear baselines next time round. That is not a great, onerous task. When we heard evidence from Mr Elvidge, he said that the Executive had output measures for nearly everything that could be measured, but they are not in the documents. As members will know, there is a whole host of internal management documents that contain such measures.

Mr McAveety: Thank you for your paper, which has been very helpful. By comparison with Jim Mather, I have spent a dissolute summer.

I would like to make two points. First, if one reads the paper carefully, as I have done, it does not seem that there has been a cultural shift inside the system in relation to what is expected, whether on the best-value agenda or on the efficient government agenda, which Wendy Alexander and other members have mentioned. It worries me that that kind of rigour has not been applied, particularly on the best-value stuff.

My impression is that one of the challenges, good and bad, that local government faced was that questions eventually had to be asked. In some cases, people might have been dragged reluctantly to the watering hole, but when they got there they had to look at services and ask whether they were designed for the demands that would be made of them. In some cases, where it has been done well, some best-value exercises have radicalised the services that councils provide. I was involved in the process, so I can give the following example. There is no doubt that the library service in the city of Glasgow is markedly better than it was 10 or 12 years ago—even the numbers of people who now go to libraries show a remarkable improvement compared with 10 or 12 years ago. That has happened because people asked those questions. The other benefit of the change was that it gave the service the confidence to seek resources from other sources, such as the Executive and Europe.

However, I do not get the sense from the papers that we have produced over the past year or so that the same cultural shift is taking place inside Executive departments or in the vast majority of Executive agencies. I just wonder how we can get that rigour. We are asking other agencies, such as local authorities and health boards, to apply a best-value agenda in a way that is different from

the way in which it is being interpreted by the civil servants in the Executive, and that is a matter of concern. It is a bit like the phrase “compassionate conservatism”, which was coined by George Bush. There might be the same rhetoric-and-reality issues with the phrase “efficient government”, so it strikes me that we need to get to the very heart of that.

Secondly, I would like to ask about the role of output measures. If you were planning for the next four years, or beyond next year—irrespective of the natural expectations and ambition of members around the table, including myself, about what happens in 2007 and beyond—and listing three or four things that needed to be done in the next session of Parliament, what do you think, given your research and assessments, it would be useful to drive forward if the Finance Committee is to be successful?

Mr Swinney: I could suggest one. [*Laughter.*]

Professor Midwinter: Thank you for that, Frank. Efficient conservatism or compassionate government—was that what you were asking about?

It is a huge question to ask of me at this time of day. I would certainly have a review of priorities and I would want to convert them to ensure—I am touching now on material that we will consider in the context of the budget—that they were meaningful in operational terms in relation to what the services provided. At the moment, we get a lot of vague statements about what departments do to promote closing the opportunity gap and so on, but actually making the link in practice is much more difficult than those statements imply. If the Executive does indeed have output measures, I would like us, in the spending review year, to have a comprehensive look forward and to decide the strategy. We would have clear baseline data for every programme, both for the money being spent and for the current level of outputs. We could then set and monitor performance, so you could tell what was happening.

At the moment, because of the way in which the system has been handled, the picture is less clear. The Scottish Executive inherited the system from the old Scottish Office, which I believe had about 2,000 targets in its documents at one time, a lot of which were, frankly, irrelevant. We have touched on that in our discussions about the difference between outputs and outcomes. I think that outcomes are affected by everything that the Government does, not just by the budget, whereas with outputs, you put the money in and you can tell what you are going to get for it. The Executive is already doing that in some senses. For example, the money for additional teachers is fed into the revenue support grant and logged in, and there will be additional money to increase teacher

numbers to 53,000, or whatever. The Executive just needs to be systematic about it.

I have often told the committee that the budget material here is like no other budget that I have ever seen anywhere—in the university, on health boards or in local authorities—where budgets are focused on the decisions that have to be made. There is a lot of overlap and repetition in the process, so I would be looking for priorities that we can be certain the Executive can influence through its activities, for clear baseline data and for much more rigorous appraisal of the options. The committee must also ask whether it can make any serious contribution to the consideration of options before the spending review, because at the moment we tend to get it as a given.

That covers three out of the four things that Frank McAveety was asking about.

Mr McAveety: Are you charging for any of them?

10:45

The Convener: Arthur Midwinter identified his favourite sentence from Sir John Elvidge's response. I had two favourite paragraphs—the third paragraph and the sixth paragraph—which refer to the "Big Picture", the four schemes for monitoring delivery and the statement:

"The corporate centre has a role to play in ensuring departmental work is consistent with the corporate whole, and in adding value gained from an overview of process."

That certainly rivals Arthur's favourite sentence.

Is there too much monitoring going on in the Executive, but not necessarily of the right type? One of the issues with best value is that it allows those who are delivering the service to provide the answers that they think are appropriate and to look forward to the way in which services could be improved. However, it strikes me that the vision that is being outlined in John Elvidge's letter is of a mechanism for ensuring that the corporate centre is properly informed—it is not about outputs and delivery but about compliance with a set of policy issues that are not necessarily coherent.

Professor Midwinter: It is not even that; it is about process issues. If we read on in Mr Elvidge's letter, lines 3 and 4 of the second-last paragraph refer to

"the dominance within the Scottish Executive's work of activity supporting Ministers in policy development".

What the Executive has been reviewing is how it carries out that task.

We know that discussions about the local government settlement and about whether six outcome agreements can be decided have been going on for years with the Convention of Scottish

Local Authorities, but nobody is sitting back and asking whether the system as a whole is delivering. We have all the detailed information about individual councils and a lot of information about the money that goes in through the block grant, but we do not have any overall assessment of whether the goals of having more teachers or more residential places have been met. Well, the information exists, but it is just not reported in any systematic way to Parliament; I think that that is what you are saying, convener. There is no assessment of the effectiveness of Executive programmes.

The Convener: That is not entirely the fault of the officials. To some extent, politicians have too many targets and objectives, so the officials are mapping out compliance with all those different things, whereas having a business basis would mean looking at the matter in an entirely different way. Perhaps one of the issues that the Finance Committee really has to address is whether departments should be managed to suit the political questions that ministers are going to be asked or whether they should be managed to deliver outputs. If there are different methods for monitoring that, we really need to move in the direction of more streamlined and effective monitoring systems.

Professor Midwinter: I agree.

The Convener: The other point that I was going to ask about relates to paragraph 75 in the conclusions of your paper. You mention "investing in public infrastructure"; however, best value and efficient government do not really provide us with a mechanism for testing whether investment decisions relating to infrastructure, which may spill over a number of years, are monitored effectively. The issue arises particularly in the context of the Transport and Works (Scotland) Bill, which the committee will consider in due course. If a decision was made to invest in a road, a railway or some other major capital project, in a normal business context one would expect that decision to be kept under regular review so that changes could be identified and decisions could be made to rebalance the programme depending on shifts in priority. I do not know whether in the way in which we operate at present there is any mechanism through which that process can take place.

Professor Midwinter: I understand that there is. Evaluation is built into the exercise, and every pre-expenditure assessment is revisited and evaluated at some stage.

The Convener: Has any of those ever been chucked out?

Professor Midwinter: I have not seen any, but I am advised that they are in the public domain. To be honest, I have not rigorously searched for

them. It seems a bit strange to publish the evaluation but not the PEA in the first place, but you can pursue that further if you wish. Certainly, there is an evaluation stage if a project is deemed to be three years in length, and an evaluation report is written up.

The Convener: We can pursue that issue in the context of the Transport and Works (Scotland) Bill. If the committee agrees, I will be happy to work with Arthur Midwinter to produce some options for that.

Jim Mather: Arthur Midwinter comments in paragraph 80 that the Treasury observes that

“while the theory is clear, the development of robust measures of public services productivity is far from simple”.

Has the Treasury spelled out that theory?

Professor Midwinter: Yes, there is a Treasury document that I can give you, which sets that out. It is about 80 pages long.

Jim Mather: I would be interested in seeing that. Are other countries more successful in measuring public services productivity?

Professor Midwinter: All that I have seen are reviews. Several comparative reviews have been carried out over the past 10 years—studies from Europe and North America. New Zealand is usually held up as the most advanced country in that kind of thing, but we are not seen as being way behind in those matters. That tells you much about the quality of the analysis elsewhere; however, we are not seen as lagging behind—in fact, the opposite. The Treasury document is very good on the measurement of productivity, and I found it really helpful.

Jim Mather: Could you send me the link to that?

Professor Midwinter: Yes.

The Convener: There are three different strands that we can pull together. First, this clearly feeds into our discussion of efficient government, for which we will have the minister before us in due course. The adviser’s paper is useful as a lead-in to that exercise.

Secondly, I wonder whether we should seek a further discussion with John Elvidge on some of the issues that have been raised about the applicability of best value. The catalyst for that might be the taking stock exercise to which he has referred—the review that is going on within the Scottish Executive. That would be useful.

The third issue, in the context of the Transport and Works (Scotland) Bill, is our consideration of what might be an appropriate process of continuous, instead of one-off, financial scrutiny of capital investment projects. We will have to explore that in some depth and detail, perhaps

taking some evidence. We can obviously do that in the context of our work on the bill.

Do members have any other suggestions on Arthur Midwinter’s paper?

Mr Swinney: We await a response from the Executive on the Howat review. Once we see that, the committee will take separate decisions.

Mark Ballard: In addition to talking to John Elvidge about best value, would it be worth our while to discuss with the minister the point that both Wendy Alexander and Arthur Midwinter made about the different levels of external scrutiny of best value for local government and the Executive? That would be more a political decision than a civil service decision.

Professor Midwinter: Discussions continue about how Audit Scotland might audit the Executive’s approach to best value. I do not know whether they will ease Mr Ballard’s concerns, but we could ask Mr Robert Black where Audit Scotland stands at the moment. There is now a commitment to extend the auditing of best value throughout the public sector.

Mark Ballard: In that case, the Audit Scotland approach would seem appropriate.

The Convener: We have to be careful not to assume that the way in which Audit Scotland conducts best-value audits is perfect. There might be issues to debate about the application of the best-value approach in local government as well as its application in the Executive. A pause and a little more thought are needed before we say that a mechanism that works in one should work in the other.

I thank Arthur Midwinter for his report. As previously agreed, we will now move into private session to discuss our final two items, which are a draft report on our accountability and governance inquiry and a draft report on the Adult Support and Protection (Scotland) Bill.

10:57

Meeting continued in private until 12:26.

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