

# **FINANCE COMMITTEE**

Tuesday 23 January 2007

Session 2

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## FINANCE COMMITTEE

### 2<sup>nd</sup> Meeting 2007, Session 2

#### CONVENER

\*Ms Wendy Alexander (Paisley North) (Lab)

#### DEPUTY CONVENER

\*Mr John Swinney (North Tayside) (SNP)

#### COMMITTEE MEMBERS

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

\*Mark Ballard (Lothians) (Green)

\*Derek Brownlee (South of Scotland) (Con)

Gordon Jackson (Glasgow Govan) (Lab)

\*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)

Mr Alasdair Morrison (Western Isles) (Lab)

Alex Neil (Central Scotland) (SNP)

John Scott (Ayr) (Con)

Iain Smith (North East Fife) (LD)

\*attended

#### THE FOLLOWING GAVE EVIDENCE:

Mr Robert Black (Auditor General for Scotland)

Bill Convery (Audit Scotland)

Angela Cullen (Audit Scotland)

Mr Tom McCabe MSP (Minister for Finance and Public Service Reform)

Ruth Parsons (Scottish Executive Finance and Central Services Department)

Craig Russell (Scottish Executive Finance and Central Services Department)

Gavin Stevenson (Audit Scotland)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

Rosalind Wheeler

#### ASSISTANT CLERK

Kristin Mitchell

#### LOCATION

Committee Room 4



## Scottish Parliament

### Finance Committee

*Tuesday 23 January 2007*

[THE CONVENER *opened the meeting at 10:04*]

### Decision on Taking Business in Private

**The Convener (Ms Wendy Alexander):** I welcome the press and public to this morning's Finance Committee meeting. As usual, I invite everyone to turn off their pagers, mobile phones and BlackBerrys. Apologies have been received from Dr Elaine Murray and Gordon Jackson.

The first item on our agenda is to seek the committee's agreement to consider in private our draft report on the financial memorandum to the Commissioner for Older People (Scotland) Bill. Members will recall that because the Communities Committee no longer intends to consider the bill, we deferred our report until that committee took a decision on its approach. Are members content to consider the draft report in private?

**Members** *indicated agreement.*

## Witness Expenses

10:05

**The Convener:** In the same process-related vein, is the committee happy to pay the expenses of witnesses who attended last week's meeting and to delegate signing off of expenses to the convener, as usual?

**Members** *indicated agreement.*

## Efficient Government

10:06

**The Convener:** Agenda item 3, on the Executive's efficient government initiative, is the substance of this morning's meeting. As members know, we have been scrutinising the initiative for some time. In the wake of Audit Scotland's report, we will take evidence today from the Auditor General, Bob Black, and later from the Minister for Finance and Public Service Reform.

I welcome the Auditor General to the committee. Accompanying him from Audit Scotland are: Angela Cullen, who is assistant director of the performance reporting group; Bill Convery, who is assistant director of audit services; and Gavin Stevenson, who is director of health and central Government. I invite the Auditor General to make a brief opening statement.

**Mr Robert Black (Auditor General for Scotland):** Good morning, ladies and gentlemen. As the committee is aware, my progress report on the efficient government initiative was published in December and I had the opportunity to present it to the Audit Committee on 19 December. I will confirm to the committee the role that Audit Scotland has played.

It is not at this stage possible for us to give a general assurance about the accuracy and reliability of the efficiency gains that have been reported because there are still some significant weaknesses in the information. We commented in our report on the extent to which the efficiency gains that have been reported so far are based on robust processes and information. Further work will be necessary to demonstrate the achievements of the initiative and its impact on the levels and quality of service delivery. I emphasise that we do not seek to provide at this stage an independent assessment of the accuracy of the efficiency gains and the numbers that are involved. Although my colleagues and I will attempt to answer members' questions, our evidence base is confined largely to the report that was laid before Parliament.

The efficient government initiative ranges widely throughout government. The committee has considered the subject in some detail—members will be aware that the efficient government plan was published in November 2004. The Executive has since said that it expects to deliver nearly £1.3 billion of efficiency gains and that it is working to identify projects that will deliver the rest of the gains to make up the difference towards the target of £1.5 billion. It expects to publish further details soon. In September 2006, the Executive reported efficiency gains that amounted to £442 million against its target of £405 million for the year until March 2006.

Audit Scotland reviewed in some detail progress on 12 major projects that the Executive identified. The 12 projects cover £380 million of the £442 million efficiency gains that were reported for 2005-06, so we covered a very large part of the efficiency gains by concentrating on those 12 projects. We concentrated on progress compared with the expectations that were set out in the efficient government plan, and we considered the scope for improving the systems and processes that are in place to report efficiency gains. An important point that I share with the committee is that we found clear evidence of a commitment to improve efficiency throughout the public sector. However, further action is needed to provide assurances about the levels of efficiency gains that have been reported and their impact on service delivery that Parliament is entitled to expect.

I draw the committee's attention to five areas in which improvement is definitely necessary; some will be familiar to the committee from its previous involvement with the issue. The first is the importance of setting robust baselines. If the Executive is to measure robustly the progress that is being made against efficiency targets, it must have a good baseline of information on costs and service outputs. Most of the projects that we examined appeared to have established robust baselines, so there has been progress in that area in the past year or so. However, there is still a need for further improvement. For example, the information that was used to establish a baseline for the initiative to reduce sickness absence in the national health service is not very good—boards do not have good baseline information on that.

Secondly, more needs to be done on quality measures. The committee knows well from its previous consideration of the matter that efficiency gains will result from the initiative only if the level and quality of services are at least maintained. We give examples of monitoring arrangements that relate to the quality of legal services, for instance, which show that it is possible to track the level and quality of service as part of an efficiency project. However, in other areas much more needs to be done to track the impact of efficiency initiatives on the level and quality of service, for example the employment of classroom assistants, which was expected to release teachers' time. The idea behind the project is to increase staff productivity by releasing teachers from administrative tasks to allow them to spend more time with pupils. However, there are no measures to identify the extent to which teachers are managing to work more productively through release of time. We recognise that that is difficult but, given the sums of money that are involved, it is a significant issue that needs to be addressed.

The third issue is that the methods for calculating efficiency gains are not always robust. The report highlights several cases in which the calculation of efficiency gains was based on extrapolations. One example is in the national health service, where boards reported savings of £21.6 million as a result of better drug prescribing. Reliance was, however, placed on extrapolation of information that was provided by chief pharmacists in each board area. Another example, which has been the subject of previous evidence taking by the committee, is the £122 million of efficiency gains that the 32 Scottish local authorities reported, which was based on a search by the Improvement Service. The committee took evidence on the extent to which the figure was reliant on six case studies and a self-response survey from councils. The Improvement Service has reported that it believes that the detailed case studies show that councils underestimated, rather than overestimated, the efficiencies that were made, although in my view much more needs to be done to validate the accuracy of the reported savings.

The fourth matter that I would like to mention briefly is the need for better supporting information. Audit trails are important, because they show how a project's efficiency gains are calculated, all the way from the data-collection process through to the processing, analysing and reporting phases. Most of the projects that we examined had clear audit trails, but in a few cases the Executive could not check reported gains because insufficient information had been provided. One example is the drug prescribing project that I mentioned earlier. Boards reported savings of £21.6 million, but no work apart from a reasonableness check that NHS National Services Scotland undertook was done to verify those significant reported savings.

The fifth matter on which tightening up is needed is development costs. Some savings are claimed gross of developments costs, whereas others are netted off. Executive guidance says that, where possible, development costs that relate directly to efficiency gains should be deducted from the efficiencies that are claimed. However, in most cases that we reviewed, developments are expected to meet several business objectives, so development costs were not netted off. That is entirely appropriate, but there were other cases in which development costs should have been deducted.

A wide body of evidence suggests that the efficient government initiative is delivering savings that would not otherwise have been achieved; it is important to emphasise that key point. In general, people who are responsible for delivering efficiencies throughout the public sector are responding well and the initiative is being

embedded in the day-to-day business of managing and running public services. However, there is still need for significant improvements in the information systems that underpin the work: without better information, there is the prospect that uncertainty about some of the reported efficiency gains will continue.

I am happy to attempt to answer members' questions. I will rely on my colleagues, who have been involved in the detail of scrutiny, because the efficient government programme is large and complex.

10:15

**The Convener:** Thank you for your opening remarks. I will kick off questioning. It comes as no surprise to anyone that there is some weakness in information systems; that was probably bound to emerge when we embarked on an efficiency exercise on such a scale. The absence of perfect information is no reason not to continue with an efficient government programme.

I am interested in what will happen next. The efficient government programme is a three-year programme. Has Audit Scotland been invited to assess subsequent progress? Is there an agreed way forward, so that the five areas that you have highlighted can be kept under review as the programme moves into years 2 and 3?

**Mr Black:** I will comment first in general terms on what will happen next and then more specifically on Audit Scotland's involvement. I am sure that the committee is aware that the Audit Committee has decided not to take evidence on or to hold an inquiry into the matter. However, it has asked the permanent secretary, Sir John Elvidge, to respond to its recommendations, so an element of work that is relevant in the short term is being done.

The Executive has told us that it is already taking action on some of the risks that we identified in the efficient government initiative progress report. For example, it has taken action on staffing of the efficient government delivery division, where there have been improvements. We will continue to monitor progress on the initiative through the on-going audit that Gavin Stevenson will oversee in the 60 or so bodies in central Government and the NHS. It might be helpful for Gavin to give the committee a quick outline of how the audit resource will continue to engage with the issue over the next year.

**Gavin Stevenson (Audit Scotland):** There are two issues. First, there are the schemes that are currently under way, many of which started before the efficient government initiative was put in place. Secondly, there are projects that are now starting to come on stream, which are more important. As

the Auditor General said, efficient government is starting to become embedded in the business processes of the Scottish Executive and the NHS. When projects come on stream, the Executive and the NHS are starting to consider how they will contribute to efficiencies and to consider the performance measures that they may have to put in place to demonstrate that at the other end.

I will cite an example from the health service. Each body in the health service now reports monthly on progress against savings targets, and identifies separately those that are declared as efficiencies. The audit process will examine the rationale behind such efficiencies and will review large-scale projects that are under way. It will review at the front end, in some project specifications, whether they will or will not contribute to the efficiency agenda. The aim is to embed efficient government in the normal audit process instead of having an historical looking-back exercise, which will not add value for the audit pound.

**The Convener:** I will ask one more question before coming to my colleagues. Your final point was that there will be an on-going audit process. Is the audit process on health underdeveloped in the Executive, compared with the audit process in health boards? You have responsibility for both. Are the audit processes in our 16 or 17 health boards better than those that you found centrally? We are aware that that is a source of tension.

**Gavin Stevenson:** It is difficult to say. Health boards and their ilk have been around for a very long time. The names may have changed, but many of the functions have remained the same. The business-case process has been embedded in the health service for about the past 10 years. The central projects were developed against a range of business objectives, but efficient government was not one of them. We must not use hindsight to judge projects that are under way—we must instead look at the current position and how existing systems could be enhanced to deliver the objectives that we seek.

You are right that we need in the audit process to be careful when we talk about terms such as materiality. When we step up the process towards the Scottish Executive, there are much bigger numbers to deal with. As the Auditor General has said, by looking at individual projects we can perhaps get to the heart of systemic issues within departments. That is the approach that we will adopt this year, following on from the initial work that the Auditor General has undertaken.

**Mr Black:** We certainly found good evidence that the Executive is actively engaged in the issues at the centre under the five key work streams, including better procurement, e-government and so on. A lot of activity is taking

place that is an essential part of the future strategy of delivering efficient government in the service, where most of the spend takes place. It is important to balance the audit of the Executive between two things: its role in achieving efficiency gains in the expenditure under its direct control and the quality of the support that it provides to lever efficiency. We think that it is doing rather well on that.

**Mr John Swinney (North Tayside) (SNP):** A general point arises from the discussion that we have just had. One of the criticisms of the efficient government programme has been that different organisations have been required to make, or may have made, rather blunt cuts, as we would traditionally have called them in the past, rather than service or process improvements that one could define as improvements in efficiency or efficiency savings. Can you give the committee a sense of whether that is a valid criticism, or are public bodies increasingly accepting that for something to be defined as an efficiency saving there must be a process improvement, a service improvement or a service change? If that is the case, can you give us a sense of what proportion of the efficiency savings fall into that category?

**Mr Black:** That is an extremely important central question. I wish that we could provide a better answer, but in this area—as I have to say in so many reports that I present to Parliament—the quality of information is often not up to the challenge.

I turn first to the health service. As the committee will be aware, our current efficiency saving of 1 per cent was being applied to all health boards. They are expected to devise their own savings through considering matters such as contracting, commissioning, estates facilities, service redesign, workforce planning and so on. In December, at the same meeting at which I presented the efficient government report, I presented the financial overview of the NHS for the last financial year. We were able to report that, on the face of it, the NHS balanced its books. It had a small overspend in its revenue budget and an underspend on capital. In the report I went on to explain some of the significant financial pressures on the boards that we think will come through in future years. There must be a risk that, because of the cost pressures in the NHS, efficient government might impact on services unless it is very carefully managed in the health service. That said, we found a number of projects in which true efficiency gains are being generated. Would any of my colleagues like to pick an example or two?

**Bill Convery (Audit Scotland):** The problem is quantification. Improvements can be more readily evidenced. If police officers are freed from sitting beside prisoners in court and are made available



to be on the beat or in a police station, or if we free up teachers' or lecturers' time at zero cost or at a more efficient cost than by hiring, that represents an efficiency. The problem is in quantifying it. We support the statement that real efficiencies are being made, but we are not in a position to give an old audit "true and fair view" on the figures. Judgments must be made. We can talk about diary records, sampling and extrapolation. We can test some of that, but the systems and processes are not really in place at the moment, so although we have evidence of savings, quantification of them is very difficult.

One of the better examples on which we can say there is a saving is on page 20 of the report. The final entry in the table is on legal aid. There were very good benchmarks, we had a system in place and there were numbers and costs in place. Changes were made to drive through efficiencies, after which the numbers and the costs dropped—the outcome is shown. There was not a huge investment. Failure-to-appear costs, for example, were not being paid automatically to solicitors and costs then paid again when they came to represent their clients. We had a real baseline and real measures and we could calculate that savings had been driven by that change. There are other examples, but that is a particularly good one because it had most of the features that we look for: an audit trail, a baseline, and the ability to calculate the costs and do a comparator before and after and say that there are savings.

**Jim Mather (Highlands and Islands) (SNP):** I noticed at the outset that you effectively qualified the audit statement. Given the absence of baseline data, the risk of double counting and the fact that, in addition, associated development costs are largely omitted from the savings calculations, to what extent was that essentially forced on you?

**Mr Black:** Of those matters, the absence of baseline data was undoubtedly the most significant, because to undertake a proper audit examination one would clearly look at the situation at the beginning of the project, then compare it with the situation part way through and at the end of the project. That is a difficulty that permeates all this.

The development-cost issue is interesting, because the general picture that emerged was that many of the projects with development costs would have happened anyway for sound business reasons. That suggests that management of those services is to a significant extent looking for ways to generate efficiencies. The efficient government programme is, if you like, an extra incentive that provides impetus in that direction.

The rule that is laid down by the Executive is, quite properly, that if a sound business case was

developed before an efficient government project, those development costs should not be netted off. It is fair to say that there have been a relatively small number of cases in relation to which we had a concern about development costs. One was in relation to the police, but I do not think that we have had a huge number of such cases, have we?

**Angela Cullen (Audit Scotland):** No. The one that we highlight in our report is in the police service. We could not find any evidence that development costs had been deducted when we thought that they should not have been.

**Jim Mather:** In that case, I will take a more general perspective. Exhibit 3 on page 11 refers to risks that are associated with measurement, methodology and eligibility. How many of the 12 projects came through the process unscathed by those risks, unlike the legal aid situation?

**Mr Black:** I do not think that we could say that any of the projects emerged from that series of tests perfectly. We have attempted on pages 18, 19 and 20 of the report to give in the right-hand column an account of the details of the claimed savings for each of the 12 sample projects. Each is different, but the same problems recurred in respect of measurement.

**Jim Mather:** You referred to a fundamental point in respect of the five points you mentioned in terms of focusing on maintaining the level and quality of services. For me, that point contradicts, to a certain extent, the preamble on the efficient government initiative in part 1 of the report, which indicates that—by and large—Audit Scotland accepts the Scottish Executive's spin on what the initiative is all about. The reason why I have a difficulty in respect of maintaining levels and quality of services is that the private sector expects efficiency savings' prime objective to be to improve the quality and level of service. That takes me back to the well-understood but counter-intuitive idea that in running a profitable company, one must maximise the level of service to customers to win more customers and get more repeat business. The profits flow from that. Would it be more sensible if the focus of the initiative in the first instance had been to beef up the level and quality of service and, in the process, to deliver savings?

10:30

**Mr Black:** As, I am sure, the committee is aware, it is a distinguishing feature of the public sector that it defines output differently from the private sector. In the public sector, we are exercised by the difference between outputs and outcomes. Does employing more nurses result in better health outcomes? Does employing more teachers result in better-educated and more

roundly developed young people? In the public sector, we tend to define better outputs as being, for example, more teachers, more nurses and more consultants. That is a fundamental problem for us. It is entirely appropriate that in the public sector there are often policy commitments to deliver more teachers, more nurses and more consultants, so the nature of the debate in the public sector is such that it has to take place on a different plain, so to speak.

**Jim Mather:** I suggest that the debate in the public sector might be on a convergent plain with the debate in the private sector, to the extent that we could come up with criteria that could be used to define profit in the public sector, such as shorter waiting lists, faster turnaround, healthier people or more people in work. Given that there is still in the public sector an obsession with outputs rather than outcomes, is there a case for having checks and balances to ensure that the methodologies that are used to achieve improvements are comparable with those that have worked in the private sector, which include lean management techniques and Six Sigma Process improvement? Should not the methodologies themselves stand up to audit?

**Mr Black:** If one examines the efficient government programme, among the 71 projects that are running one will find examples of projects that have imported such thinking. However, I am not convinced that such techniques can be applied at strategic level; they are operational tools that can be applied in certain parts of the system. As good an example of that as any is the shared services agenda, which is attempting to achieve economies and efficiencies in shared services while preserving the output from shared services as a whole.

**Jim Mather:** I hear what you say, but I regret the fact that the opening statement in part 1 of the report lacks a caveat. It states:

"The Scottish Executive's ... Efficient Government Initiative is an efficiency programme which supports effective management and customer-focused service delivery. It is not an economy drive and any savings it achieves will be reinvested in public services."

It would have been much more helpful if the report had said that the initiative "seeks to be"—rather than "is"—an efficiency programme.

**Mr Black:** I take your point. It is fair to say that that section of the report is pretty much a quote from the policy statement.

**Mark Ballard (Lothians) (Green):** I want to follow up on Jim Mather's questioning. In your opening statement, you said that it was possible to have effective quality measures. In particular, you mentioned the example of legal aid. Page 17 of the progress report refers to the use of

"an established quality assurance peer review scheme"

for the legal aid project, which you praise. How common is it for projects to have acceptable quality assurance systems? Are there projects that do not have quality measures similar to those used by the legal aid project?

**Mr Black:** That is a good question. Bill Convery might know whether we gathered any information on that through the audit process.

**Bill Convery:** Not specifically. Because productivity—what value we get for our pound—is not a concept that is used in the public sector, there is no ready comparator of whether the output per teacher is better or worse than the output per policeman. A great deal of work is being done to drive the development of such measures, but none is available. We are left with a quality measure that says that adding more teachers or classroom assistants will free up teachers, which will improve the quality of teaching. It is extremely difficult for a financial auditor such as me to measure such quality directly and to translate it into pound notes.

**Mark Ballard:** But it appears that that has been achieved in the legal aid project, so it is possible to achieve.

**Bill Convery:** It is possible to achieve with projects for which the numbers are available. Over the next two years, we will be in a better position to comment on, for example, procurement and drug pricing projects. If one buys certain goods of the same quality year on year—for example, if one continued to buy Kellogg's cornflakes rather than a cheaper brand, that would allow one to say that one had made a saving—it is possible to measure progress while keeping the quality up. Some of the projects are numeric and some of them are fixed. With such projects, the base can be identified and changes in numbers, costs and outputs can be measured. The projects with which we have major difficulties—as does the Executive—are those that involve measures of people, such as how much value more time for a policeman, a lecturer or a nurse adds. If the sickness absence initiative in the NHS is successful, we will have more nurses at work, but it is difficult to establish what the value of that will be.

**Mark Ballard:** Among the projects that you sampled, was the legal aid project an exception in having an acceptable quality assurance scheme, or were there other projects that you felt also used acceptable quality measures?

**Bill Convery:** The other projects that used such measures were the numbers ones. NHS procurement involves identifying the cost of goods and the number of them that were bought the previous year. By joining up with other bodies, the numbers can be increased and a discount can be negotiated. With some projects, measures are

available. They are not perfect, but they make it possible to make a reasoned assumption about how much money has been saved.

**Mark Ballard:** That is more problematic with the people projects.

**Bill Convery:** It is very difficult to put a value on those.

**Mark Ballard:** Did you find any instances of efficiencies being claimed or pursued that could have an adverse effect on service quality? I recognise the problem of not having measures of service quality, but did you uncover cases in which you had concerns that service quality might have declined because of claimed efficiencies?

**Mr Black:** I do not think that we had a concern about that in relation to any individual project. The general risk must be the top-slicing effect. Unless that is managed extremely carefully by management in local government and the health service, it could have an impact on the level of service. We highlight that risk in the report. There is a need for better information that links financial spend to performance, which is an area in which, systemically, the public sector is weak.

**Mark Ballard:** You have identified that that risk exists, but you do not yet have the data to assess whether service is being affected on the ground.

**Mr Black:** That is correct.

**Mark Ballard:** So that could be happening on the ground.

**Mr Black:** Yes. As I am sure that Professor Midwinter will have advised the committee, the problem is that public bodies tend not to isolate programmes that are designed to generate efficiencies and programmes that are designed to move resources into new service developments. There might also be a need for budgets to be trimmed to meet resource allocations that are not overtly part of the efficient government programme, but which are a reflection of the overall cash constraints on public bodies. Ultimately, it will be extremely difficult—perhaps impossible—to unpick the different elements in that because the public bodies concerned manage their finances against the overall budget constraints.

**Mark Ballard:** Would it be possible to approach the issue the other way round and to speculate on what might be causing the losses in service quality that have been identified? If it is not possible to extrapolate forward, is it possible to extrapolate back?

**Angela Cullen:** Where we are coming from is that output measures or measures of success should be set at the outset so that it can be ensured that performance, whether from the point

of view of productivity or the point of view of quality, does not reduce. There should be no dip in productivity, in relation to either activity or quality. We want the level of service to be maintained. The public sector should maintain the quality of services, but provide them more efficiently.

**Mr Andrew Arbuckle (Mid Scotland and Fife) (LD):** In the key findings, you rightly identify that a significant proportion of the gains will come from a small number of projects and from local bodies rather than central Government. Are you happy with the differentiation between the savings that are expected of local bodies and those that are expected of central Government?

**Mr Black:** In general, the picture at the highest level seems to be that the efficiency challenges are being applied to each sector in proportion to their significance to Scottish public spending overall. As I think we all recognise, the great bulk of spending is delivered by bodies that are independent of, or at arm's length from, central Government.

The pie chart in exhibit 7 of our report shows savings plans by area of the public sector. As you will see, health and local government account for, roughly speaking, a third each, although health is somewhat ahead of local government. That broadly reflects the levels of spend in the sectors, so the general answer to your question is that the savings plans are broadly proportionate to the spend.

**Mr Arbuckle:** One outturn resulting from the savings in procurement is the aggregation of contracts. Have you come across any evidence that such gathering together of contracts is detrimental to local suppliers?

**Mr Black:** I do not think that we have evidence about the impact on local suppliers.

**Bill Convery:** That was not part of our remit, and we did not come across it in carrying out our work, so we did not follow the process to see whether any savings were freezing out smaller local businesses.

**Mr Swinney:** When we compare the efficient government programmes of the Scottish Executive and the United Kingdom Government, we find one striking similarity and one major difference. The striking similarity is that many of the criticisms of the UK Government's programme made by the National Audit Office sound remarkably similar to some of the points in your report and your comments today. I make no criticism in saying that. The difference is the fact that the UK programme is scheduled to run at an efficiency saving rate of 7.1 per cent of the departmental expenditure limit, whereas the Scottish Executive rate is 4.7 per cent of DEL.

On the similarity, the National Audit Office is clear that the absence of information systems directly hampers its ability to validate the programme. Has there been any dialogue involving the Government, Audit Scotland and the NAO about how to improve the reporting and the steps that would be required to be taken? What has the Government said?

**Mr Black:** We have been in regular dialogue with the NAO. As Angela Cullen has been involved in that, I invite her to give you a full answer.

**Angela Cullen:** As the Auditor General said, in the past year we have been in regular dialogue with the NAO on efficient government. The NAO published a report last year that, as Mr Swinney recognised, had themes that are similar to those that we have picked up in Scotland. We understand from our recent conversations with the NAO that it is due to publish another report on the UK position and that it will echo some of the themes that were in its previous report. It has not attempted to validate the savings this year, but it will use the same process—a traffic-light system—to reflect some of the risks, which are similar to those that we have identified. The NAO will keep the process in view, and we will maintain a dialogue with it to see how we can develop how we operate. We plan to review the situation on an on-going basis, and we will see whether we can pull together a joint reporting approach.

**Mr Swinney:** In the wake of what are similar findings by the NAO and Audit Scotland, what has been the nature of the response from the Scottish Executive and the UK Government?

**Angela Cullen:** I cannot really speak about the UK Government's response. We have spoken to the NAO, and as far as we are aware the UK Government accepted the comments in the NAO's previous report. We do not know what is happening with the forthcoming report.

**Mr Swinney:** Is the process leading to improvements in data collection and in mechanisms that would allow auditors to make more comprehensive assessments?

**Angela Cullen:** We believe so, but the fact that the NAO has not attempted to validate the savings this year gives us a hint that there are still some weaknesses in the systems and processes in the UK Government in general.

10:45

**The Convener:** I want to ask just one question on that before John Swinney continues. You mentioned a traffic-light system in the UK; have you used that in Scotland in assessing projects?

**Angela Cullen:** No.

**The Convener:** Why not? It sounds an interesting way of achieving comparability across a number of disparate projects—perhaps 50 or so.

**Mr Black:** In Scotland, because of scale, we were able to look in some detail at 12 projects, covering 86 per cent of the reported savings last year. We are getting good coverage of devolved spending in Scotland, and I suggest that we give a richer picture of what is happening in each of the projects in exhibit 9 of our report, in which we go through them in some detail.

Because of the scale and complexity of government across the UK in the non-devolved area, it would be difficult to capture such richness of data. In my experience, traffic-light systems are often a way of trying to capture complex information at a high level, and I felt that the value of the information would be reduced if we stopped at that level. I wanted to go down a level and present a narrative for all major programmes in Scotland.

**Mr Swinney:** The second part of the comparison is the difference between the UK Government target of 7.1 per cent and the Scottish Executive target of 4.7 per cent. In your assessment of the range of opportunities to make efficiency savings, do you think that it would be in any way unrealistic for the Scottish Executive to pursue the UK Government target?

**Mr Black:** The short answer—which is not going to be very helpful—is that we do not have enough of an evidence base to offer a judgment. The targets are set from the top down, which means, by definition, that a judgment is taken at a high level of government on what is a reasonable challenge to set. That is beyond the ken of auditors.

**Mr Swinney:** The NAO is not signing off or validating the savings that the UK Government says have been made.

**Mr Black:** No.

**Mr Swinney:** So, effectively, ministers say that they have achieved savings of 7.1 per cent, but there is no independent verification of whether that is the case.

**Mr Black:** To the best of our knowledge, the NAO position will be four-square with ours, in the sense that it will provide an assurance on the quality of the systems and data that are being used, but it will not provide an independent validation of the numbers.

**Mark Ballard:** I want to continue on the breadth of the data that you are collecting. One issue that has been discussed is the benefit of centralising specialist services, in the NHS for example, particularly when expensive facilities or highly trained or specialist staff are involved. Centralising

services may generate measurable efficiency savings for the NHS, but it may impose costs on patients and visitors. Do you assess those wider costs on society and service users in your calculations?

**Mr Black:** We make the general point in the report that it is essential to include information on quality and outputs in any assessment of an efficient government project, so that we can determine whether there are impacts of the sort that you outline. Bill Convery may be able to help us with some examples.

**Bill Convery:** The member's question takes us back to the Executive's claim that the initiative is an efficiency programme. Such a programme is relatively unusual; during the past 20 or 30 years in the public sector there have been economy drives, cuts, budget reductions of 1 per cent and requirements that departments give up 5 per cent—we are all used to such crude measures of saving money. The Executive defends its programme to achieve efficiency gains of £1.5 billion on the ground that efficiency gains can be counted only if they lead to no reduction in quality. The net saving from the scheme is not £1.5 billion; it is £0, because not a penny is to be saved and all moneys must be reinvested. The scheme is not a traditional one in which cuts are made. If a project is to be included in the scheme at all, there must be quality assurance.

There is a question about the extent to which we can validate quality assurance. The impact on a person's health of their having to get a bus to Wishaw general hospital rather than go to Monklands hospital is way beyond our ken as auditors. However, if a project is submitted as part of the programme, the NHS is required to say what measures it will take to ensure that quality will be maintained.

**Mr Arbuckle:** You said that account is taken of the social consequences of the efficiency programme, which might be regarded as significant by some people, but how is that done and what weighting do you give to such matters? Do you consider purely the financial figures?

**Mr Black:** As you know, we have a full programme of performance audit reviews, which we conduct every year. A fundamental element of performance audits is consideration of service delivery as well as cost. We consider quality, output and cost in all the major studies that we undertake. The short answer to your question is yes, we are concerned about quality. Quality is fundamentally important and should be covered by audit.

The efficient government programme is a special case, for the reasons that we have discussed at considerable length this morning, in

that it is a top-down programme to drive efficiencies, but it is not yet supported by information systems that are up to the job.

**The Convener:** I thank the witnesses for their evidence. We will pause to allow the minister to join us.

10:52

*Meeting suspended.*

10:56

*On resuming—*

**The Convener:** I welcome Tom McCabe, the Minister for Finance and Public Service Reform. He is accompanied by Scottish Executive officials: Ruth Parsons, head of the public service reform and efficiency group; and Craig Russell, head of the efficient government delivery division. I invite the minister to make an opening statement.

**The Minister for Finance and Public Service Reform (Mr Tom McCabe):** Good morning. I thank the convener and members for giving me an opportunity to say a few words about our efficient government programme. As this session of the Parliament is reaching its end, this is a good time to review the achievements that have been made under the programme and to say a little about the challenges that lie ahead.

I was pleased that when the Auditor General for Scotland appeared before the committee in December, he said:

“the efficient government initiative strikes me as the most sustained and purposeful commitment to improving the efficiency of government in Scotland that has been made for quite a considerable time.”—[*Official Report, Finance Committee*, 19 December 2006; c 1928.]

That was a good endorsement, by any measure, but it does not mean that Audit Scotland will not see fit to make constructive comment on specific aspects of the programme—that is that body's job, and I would expect no less of it. There has been a frank and professional exchange between the Executive and Audit Scotland, which has contributed to our good relationship.

The Audit Scotland report, “The Efficient Government Initiative: A progress report” highlighted five main areas for further action. I will give you my initial thoughts on the recommendations in the report. First, on baselines, the templates for efficiency technical notes have been extensively revised and the majority now contain a clear statement on the baselines for inputs and outputs for each project. Audit Scotland wants to ensure that every project has the same information and we will continue to work with all project managers to develop and improve the information that is available. We will

further revise the templates when we publish the next edition.

Secondly, some quality measures are in place to track the level and quality of services. The Scottish legal aid fund offers a good example, which was cited in Audit Scotland's report. However, I accept that much remains to be done. We will do our best to improve the situation. The report mentioned the lack of measures to identify the extent to which the use of classroom assistants means that teachers are managing to work more productively as a result of the release of time. I am not convinced that a requirement to keep time sheets that record how teachers spend every block of time in their day would be a productive use of time, but the challenge remains to find appropriate and proportionate ways of calculating the efficiency gains that have undoubtedly come about as a result of our initiative.

Thirdly, Audit Scotland concluded that the methods for calculating efficiency gains are not as robust as they could be. I agree that the calculation of efficiency gains is unlikely to be accurate to the exact pound, but it is an exaggeration to suggest that that means it is anything less than robust. As we said from day 1, we will of course pursue continuous improvement. It is our intention—and it is in our interest—to improve information in that area.

11:00

There are clearly areas that can be improved, but the challenges that we face are not unique to the Scottish Government; they are faced by all Governments. Undertaking work to address those concerns involves initiatives such as the one that the Improvement Service is engaged in, along with local government and the Convention of Scottish Local Authorities, to develop the Aspiren framework, which will provide a monitoring framework for local government. Importantly, it will be signed off by the chief executive or senior officer in each local government, and it will be auditable under the best-value process.

It is worth making reference to the National Audit Office report on the Gershon savings down south. The NAO report says:

"We recognise the challenge departments have faced in measuring efficiency gains for the first time using information systems made for other purposes."

That is not to imply that if projects are unable to measure their contribution to the department's efficiency targets, they should be abandoned. In most cases, the contribution to the target for efficiency gains is only one of the many intended benefits of a project.

I turn now to development costs. When I last gave evidence to the Finance Committee, I

answered a question on the Scottish budget, but I misunderstood the question. I have since written to the committee to try and clarify that. It would be useful at this point to stress our position.

The Audit Scotland report validated the approach that we took to netting off appropriate development costs in most of the cases that it reviewed. It identified a few cases in which it believed that development costs should have been netted off. We are committed to investigating those cases and, where appropriate, we will net off those development costs.

My final point is on better supporting information and audit trails. Most of the projects that were reviewed by Audit Scotland had a clear audit trail. For two projects, the report concludes that insufficient information was provided to the Executive, and Audit Scotland at the same time conceded that the Executive undertook a reasonableness check. It is therefore important to be clear that we are talking about money not spent because of more efficient working to save either cash or time. I am not convinced that it would be a good use of resource to apply the same level of audit resource to money not spent as would be applied to the £25 billion of public sector expenditure that is subject to external audit.

It is worth mentioning that a degree of rigour is applied centrally. If we had been prepared to accept all the suggested gains, the total would now be approximately £167 million higher. We were prepared to accept only annually recurring gains that met our stated definition of efficiency savings. We are working with project managers to ensure that management systems are set up to capture information proportionately.

It is no secret that, during the period of the next spending review, the fiscal position will be positive but tighter than that experienced in recent years. That tells us that increasing efficiency across the public sector in Scotland is essential, rather than just highly desirable, if we are to meet the increasing budgetary pressures and to deliver the improved services that we all seek. It would be in no one's interests, least of all the Executive's, if we were to deliver anything less than recurring efficiencies that can be embedded in particular activities. We will ensure that this initiative makes a positive and long-term contribution to the cost, quality and sustainability of services in Scotland.

Fostering a culture of efficiency is vital to the success of the programme and I am pleased to note that the Audit Scotland report states:

"There is evidence that those responsible for delivering efficiencies across the public sector are responding well in embedding the initiative into their day-to-day business."

That is exactly what we would like to see and what we will pursue in the months and years to come.

If the committee has any questions, I will do my best to answer them.

**The Convener:** Thank you for those opening remarks. I will kick off the questioning. On your final point, we are obviously looking at a tightening financial environment in future, and the efficient government programme is very ambitious. In light of that and in light of the scale of the efficient government programme, is the Executive thinking about enhancing the resources that are available to its efficient government delivery division in the period ahead?

**Mr McCabe:** We will keep that issue under constant review. You are right to say that the emphasis on the programme will increase in future because of the changing fiscal environment, and we might well need to consider the level of resources that we commit to the initiative. So far, we think that the resources that we have committed have produced excellent results, which indicates that we should increase those resources proportionately. As the committee is aware, from day 1 we have said that we do not want to create an army of checkers or to apply a disproportionate amount of resource to the programme. However, what we have applied so far has provided good value, which gives us every confidence that increased resource in the future will not only be necessary but will produce even better value. That will be at the forefront of our thoughts as we consider the future.

**Mr Frank McAveety (Glasgow Shettleston) (Lab):** In a sense, your response to the convener's question pre-empted my question. In which areas have the resources that you have allocated to the task so far been more effective than others?

**Mr McCabe:** Are you asking about the resources that we have applied within the Executive or about how people have responded to the programme?

**Mr McAveety:** Both.

**Mr McCabe:** I have been impressed with the relationships that the team that works within the Executive has developed with other portfolios. Craig Russell operates very successfully as a critical friend.

**Mr McAveety:** Hard luck, Craig. Will you be here next year?

**Mr McCabe:** Critical friends are always well accepted.

We have started to embed a culture in the Executive and in our delivery agents that is quite encouraging. That is down in no small part to the way in which the staff who are tasked with this activity have gone about their duties. Those in the national health service have responded spectacularly, and those in local government have

responded very well. There were concerns—perhaps justifiable—that local government was getting the heavy end of the stick, but it has demonstrated that it was making efficiency savings before the programme started, that it has ample capacity to make such savings and that, to date, it has exceeded the targets that have been set. I am very happy with the way in which the programme has performed in those areas.

**Mr McAveety:** In light of that experience, will you put in additional resources to lever in more value for money or more efficiency? What is the timescale for when you would want to do that?

**Mr McCabe:** It is clear that we must think about our approach to efficient government in light of the next spending review. The programme that we promote will be critical to the other decisions that we take during the spending review. That is all wrapped up in some of the big decisions that have to be taken as we move our way through this year.

**Mr Arbuckle:** I turn to an area where it is difficult to measure the savings. It is one thing when you are saving pound notes, but how do you measure, for example, the outturns from the consultants in the NHS? The report says that there has been quite a significant saving, but there is no baseline, so how are efficiency savings measured in such areas?

**Mr McCabe:** Can you clarify what you said about consultants in the NHS?

**Mr Arbuckle:** The use of NHS consultants is down in the report as saving £45 million in the current year, but there is no baseline. Where has that figure of £45 million come from?

**Mr McCabe:** I am sorry; I misunderstood your use of the word "consultant". I did not realise you were talking about medical consultants as opposed to people brought in from outside.

We are looking at a number of measures. This is clearly a developing area. For instance, we are looking at the number of bed days that are required as a result of procedures, the number of repeat visits and the number of repeat outpatient visits that are required as a result of consultations. We have put in place a number of measures to assess the consultant contract's effectiveness. I fully accept that that work is in its early days, but I think that it will produce some fruit.

**Mr Arbuckle:** I will return to the health service later.

**Mr Swinney:** Different initiatives will be taken within different health boards to try to improve efficiency and deliver higher levels of productivity. If a board is able to increase consultant productivity, is there a mechanism for sharing that example across the health boards? Is there a standard way of driving good productivity

improvements across all health boards rather than leaving them to be pursued in one board but not applied in others?

**Mr McCabe:** In Scotland, we are not so good at sharing information. In many aspects of our work—the health service and other activities—there is sometimes a tendency to reinvent the wheel. The more that we can create a learning environment, perhaps through the worldwide web or other electronic means, the more we will benefit. There are examples of that happening. Perhaps Craig Russell could expand on that.

**Craig Russell (Scottish Executive Finance and Central Services Department):** We have a portfolio manager who is responsible for health in its entirety and for doing exactly what John Swinney asks about—transferring the message from one area to another. Notwithstanding the efficiency programme's results, getting people to think about efficiency, to recognise if someone else is doing something better than they are and to adopt that practice has been one of the successes.

That relates to the convener's question about resources. We need to concentrate on resources to improve the management information base and ensure that people work to best practice in improving efficiency.

**Mr Swinney:** Do you have any tangible examples of a good project from health board A being rolled out across the remaining health boards to deliver a productivity gain?

**Craig Russell:** Not at this point. We reported nil returns for one or two projects because we assessed them as lacking robust evidence. As a consequence, a number of health boards have come together and worked out a system for measuring efficiency savings, so I expect that, at some point in the future, I will be able to add to the total in the outturn report by virtue of the work that a number of boards have done in concert.

That takes us back to the critical-friend role. It is not in my interest to come to the committee meeting without having done the background work on what the committee may find is not as robust as it should be. I do not know whether the Auditor General mentioned this, but we gave his team free and absolute access to everything that we had—not only published information—to demonstrate that the minister's programme is robust and as open and transparent as we can make it.

**Mr Swinney:** I will tackle the same issue from another perspective: if you identify a good example of productivity improvements and efficiency gains and try to roll it out, do you encounter resistance from other organisations? I take the point in the Audit Scotland report that

there is a buy-in to the culture of improving efficiency, but do you still encounter resistance?

**Craig Russell:** I will start with an historical point: initially, we did encounter resistance. To begin with, there was a sense that the efficiency programme was a fad that would go away, so there was a certain amount of hiding under the bushes and hoping that it would roll past. By midway into the first year, there was clear evidence that it was not a one-off but would continue beyond the current spending round and into the next, so people's minds started to turn directly to what they would have to do about it. My team pressed them fairly hard on that and said, "Times is tough. You need to think about it."

The important point is that the programme is about public sector reform, which is why we have joined the public service reform group and the efficient government group together. If we do not deliver efficiency savings, we will not deliver the headroom to improve public service delivery, which is the vital element. It is also partly about commitment. My team and I are absolutely committed to the view that we can run good-quality, efficient public services. We have to project that image, and we do so with vigour.

11:15

**Mr McCabe:** In my capacity as a minister, I receive invitations to speak to a range of professional bodies, and we never miss the opportunity to stress the fact that efficient government is here to stay. During our public service reform dialogue, which has been going on for a considerable time, I have always made it my business to stress that efficient government, embedding efficiencies and creating a culture of efficiency to produce better services for the future are important parts of public service reform. We never miss an opportunity to stress our determination to carry through the programme.

**Mr Swinney:** The Audit Scotland report makes the point that people are buying into the process, but does your assessment of the range of public authorities and public bodies show that some are not responding or could respond more vigorously to the direction of travel that you are setting out?

**Mr McCabe:** We do not have evidence of bodies simply recoiling from the direction of travel. If you are asking whether there are areas in which there is capacity for people to improve their activity, the answer is yes—there have to be, because the programme will step up a gear in the not-too-distant future. The lessons that have been learned and the approaches that have been taken so far will stand people in good stead as that occurs.



**Derek Brownlee (South of Scotland) (Con):**

You mentioned baselines in your opening statement, minister. Audit Scotland acknowledges that the majority of the projects that it considered had a robust baseline, but some did not. I paraphrase, but you also said in your opening statement that you would work with the project teams to improve the data. Is that the same as saying that there will be a robust baseline for every project in the next set of efficiency technical notes that is published?

**Mr McCabe:** It is the same as saying that that is our intention. I think that there is at least one example in the report for which we have considered the situation and concluded that development costs would be negligible, to say the least. When we feel that that is the case, we will express that view, but I am pleased that the report acknowledges that we have made considerable progress on baselines. There is nothing in the way in which we are approaching the work to indicate that we want to stop there; we will continue to pursue baselines.

**Derek Brownlee:** If it is difficult to determine a baseline, but there is an opportunity to develop efficiencies, might you go ahead with the efficiency project rather than wait until you have an auditable, robust baseline?

**Mr McCabe:** Yes, we will undoubtedly take that approach. We will do our best to pursue baselines, but I will not put a potential efficiency gain on hold simply because we are not able to demonstrate it. Part of my job will be to defend the position and explain why we are in it.

**Derek Brownlee:** When will the next set of efficiency technical notes come out?

**Mr McCabe:** We do not have a set date at the moment. It is partly my decision, but the officials who work on efficiency are concerned that, because the efficiency technical notes are under constant revision, we want them to show signs of continuous improvement. We will publish them when we are satisfied that they show that, when we are satisfied with the additional gains that we have secured and when we are satisfied that we are making good progress in securing gains over and above the figure that is already in the public domain. We want to do our best to ensure that the notes are clear and fulfil as many of the criteria that have been flagged up in the Audit Scotland report as possible.

**Derek Brownlee:** Is it possible to say at this stage whether that will happen before the election?

**Mr McCabe:** The chances are that it will be before the election but, to be frank, we are entering into a sensitive time. I could publish the efficiency technical notes tomorrow and it would

be a good news story, but we need to be careful about how we use the information. However, the intention is to publish the notes prior to the election. That may encourage those who are genuinely interested in achieving the targets and aspirations that we have set ourselves and in embedding the culture of efficiency throughout the public sector.

**Derek Brownlee:** You gave a positive hint about the scale of efficiencies that will be made public when the notes are published. Will that represent the limit of the efficiencies that you think can be delivered at the moment or will it simply be a down payment?

**Mr McCabe:** You will remember that, in the original document, we set targets and aspirations. We began with the aspiration of achieving a saving of at least £745 million a year in cash, which we believed could be as much as £900 million. We have now exceeded that figure. The same is true of the top-line aspiration, which is now £1.5 billion. I am happy with the direction of travel.

**Mark Ballard:** As you said in your opening remarks, the report highlights five broad areas of risk within the programme. In particular, I want to discuss the quality issues that are mentioned. You said that some measures are now in place to assess quality of service and that the Executive will do more to improve that area in the future. What will that amount to in practice? What can you do without, as you say, making every school teacher carry a little diary with them all day long?

**Mr McCabe:** That requires an assessment of individual projects. I am pleased that, in some areas, we have those indicators. As I mentioned in my opening remarks, the Audit Scotland report flags up the example of legal aid and demonstrates that we have built in some of the indicators that people would look for. We will try to do the same wherever we can in other areas. We recognise the value of that, and we will pursue that whenever we can.

**Craig Russell:** As it stands, efficiency technical note 10.1 asks:

“What quality indicators are being used to ensure that quality of service is maintained or improved?”

The Auditor General says that some of those indicators could be improved, which we acknowledge. In each case, the portfolio managers are working with the project managers to try to improve the indicators.

The previous question was about the extent to which we can improve. Given my background in efficiency, my view is that continuous improvement is the natural order of things—we will never reach a point at which it is absolute. I think that the

Auditor General would agree that it would be strange if he and I ever reached a point at which we agreed there was nothing left to be done.

**Mark Ballard:** I asked the Auditor General whether there was any evidence of an inadvertent reduction in service quality due to efficiency gains. Have you seen any evidence of that?

**Mr McCabe:** No, we have not. As I said earlier, we rejected projects totalling a not inconsiderable value—something in the region of £167 million—for a variety of reasons, predominantly because we did not feel that the savings would recur annually, which meant that the projects did not meet the efficiency criteria that we set. On occasion, initiatives would have resulted in a lower quality of service or a cut in service, which is not an objective of the programme, therefore we rejected them. I hope that that indicates to the committee that we are serious about the programme. It would have been quite easy to take the £167 million that was offered from a variety of portfolios and simply add it to the overall total, but that would not have met our objectives and it would have been counterproductive. I hope that that indicates that we are not making savings simply for the sake of adding them to the total. We assess the impacts of savings and whether they meet the criteria that we have set.

**Jim Mather:** Focusing on efficiency savings and the quality of public service, my question is about whether we have got the polarity right. We know that the prime objective of businesses that are trying to achieve profitability is not profit; it is satisfying or exceeding customer requirements in order to generate profit. People want to be happy, and it is probably better to try to find happiness through absorbing, compelling and rewarding work. Why have you focused on making cash-releasing and time-releasing savings the priority? Should we not take a counterintuitive approach and focus primarily on the quality and availability of public services in order to achieve the end?

**Mr McCabe:** That is pretty deep, Mr Mather.

**Jim Mather:** I can be deep on a Tuesday morning.

**Mr McCabe:** We all entered politics, in one way or another, although without expressing it explicitly, to pursue happiness for the populace in general. That is what we are about, and I hope that the programme contributes to that. However, the world being as it is, people sometimes express happiness in pound notes and are happier if we indicate that they will receive the totality of public services that are on offer in Scotland for fewer pound notes than before.

**Jim Mather:** We started this morning with the Auditor General giving a qualified statement on the report and the nature of the savings and saying

that it was not possible to confirm the accuracy of the efficiency gains. When we asked him about exhibit 3, which refers to the measurement, methodology and eligibility risks that he recognised, he told us that not one of the 12 major projects that he examined had got through the process unscathed. What are you doing to address that to ensure that, in the future, projects avoid those risks and come through in better shape?

**Mr McCabe:** I would have been surprised if the projects had come through unscathed. Audit Scotland's job is to examine the projects critically, and I expect it to do that. We are one year into a programme that is teaching us all lessons and is trying to change the culture within public services, so I would be surprised if there were not lessons to be learned from all the projects.

I sincerely believe that we have a useful and productive relationship with Audit Scotland. If it can reveal such instances, that is all to the good, as it allows us to identify the lessons that we need to learn and the things that we need to do in the future. I am confident that, further into the programme—perhaps after the second year or near the end of the third year—an awful lot more of the projects will satisfy the tests to which Audit Scotland subjects them.

**Jim Mather:** What will you be seeking to achieve when you publish the next version of the efficiency technical notes?

**Mr McCabe:** We want to publish efficiency technical notes that demonstrate that we are genuinely pursuing continuous improvement, that are more exact, and that tell us more about the programme and the achievability of the targets that we have set.

**Jim Mather:** How will the non-publication of the Howat report aid that process?

**Mr McCabe:** The Howat report is not the subject that we are here to give evidence on, but I will say what I have said on many occasions. The Executive took a courageous decision in inviting individuals from outside the organisation to examine our spending profile and to consider whether programmes that have been in place for perhaps a considerable time are still relevant to the challenges that we face today. The Executive—no one else—decided to do that as part of a platform that we are building to inform the important decisions that we will make in relation to the 2007 spending review. We will put into the public domain not only the conclusions of the Howat report but the other information that influences the decisions that we make in the spending review.

Our approach to the Howat report will positively contribute to the final outcome of the 2007

spending review. Over time, people will see that. Increasingly, the general public will realise that the report was not foisted on the Executive but was an initiative that was taken at the Executive's own hand, and it will play a useful part in the decisions that we will make in spending review 2007.

**Jim Mather:** The key question is whether that procrastination is compatible with a genuine commitment to continuous improvement.

**Mr McCabe:** I think that it is. You may call it procrastination but, with respect, you do not have any experience of Government. A range of difficult decisions needs to be made, and that will be no less the case as we approach the 2007 spending review. The report that the Executive commissioned will contribute to more effective decision making, and it will be put in the public domain at the same time as those decisions are put in the public domain.

11:30

**Mr Arbuckle:** Procurement is another aspect of the efficiency programme. It has been estimated that £150 million of savings will be made in national health service procurement as a result of collaborative buying. Audit Scotland's report mentions

"extending the use of national contracts".

How are small local suppliers being affected by that process?

**Mr McCabe:** I invite Craig Russell to answer that question.

**Craig Russell:** That matter has been considered; indeed, your question mirrors a question that I asked, funnily enough. A quality issue is involved. We are clearly talking about undesirable impacts on local economies.

The e-procurement Scotland system is set up in such a way that small suppliers can add themselves to the list of preferred suppliers. It is then up to those who commit themselves to contracts to determine which suppliers they want to use. A massive conglomerate will not necessarily always get the contract. We are sensitive to the impact that you mentioned.

**Mr McCabe:** If the efficient government programme excluded small businesses from market opportunities in Scotland, we would view it as counterproductive. We must see the matter in the context of other initiatives that we have taken to reveal to the market a far greater share of the opportunities and to lower the threshold below which local government and the public sector must reveal contract opportunities. Opportunities for maximum publicity exist that reflect recent court judgments. Smaller companies can now see and

compete for contracts below *Official Journal of the European Union* values, which now appear on websites and are in the public domain. Such opportunities were not available to those companies in the past. We are pursuing a direction of travel to ensure that opportunities are exposed to all sections of the economy and not only to major companies.

**Mr Arbuckle:** I welcome what you say. However, if contracts are aggregated, they can be pushed up to a level at which they must be submitted to the European Union. Is there a danger not only of losing local suppliers but of contracts going outwith Scotland?

**Mr McCabe:** I take your point about what might happen if the number of large contracts is increased, but we have European Union obligations that we must meet. However, some of the framework contracts allow us to protect smaller companies as much as possible. Furthermore, if a contract for a service is awarded to a company that is based outwith our shores—which does not happen every day—it will often be in that company's interests to utilise local sub-contractors.

**The Convener:** Andrew Arbuckle has another question on health.

**Mr Arbuckle:** I am interested in service quality and in how the service that is provided by the health service, for example, is measured. Mark Ballard asked about one example. Will you say something about measuring outturns in the health service in particular?

**Mr McCabe:** Several significant indicators show that our health service is improving. We should consider the waiting time targets that have been met, the increase in the number of orthopaedic and ophthalmic procedures that have taken place and the reducing average time that people spend as in-patients. There are positive indicators that the health service is making real progress. I accept that there is not a direct relationship between those indicators and the efficient government initiative, but let us consider the Executive's internal approach. We would reject a project that the health service suggested that did not meet the efficiency criteria that we have set and would not result in annually recurring savings—indeed, we have already done so. I hope that that reassures members that we would not accept a project simply on the basis of its value—it must meet the criteria that have been set.

**Mark Ballard:** I discussed the NHS with the Auditor General. Consultant productivity efficiencies may result from centralising services, particularly expensive, high-tech services. Such centralisation may lead to measurable impacts on consultant productivity, which may significantly

improve, but costs may be passed on to service users and to people who visit those service users when they are in hospital. Those people might have to spend much more time travelling much greater distances. When the Executive measures improvements in consultant productivity as a result of centralising services, how far does it take into account the disbenefits to service users of not using services that were previously much closer to home?

**Mr McCabe:** That question does not relate directly to the efficient government initiative; it is more about the general direction of travel in delivering health services. Critical services are reconfigured as a result of professional recommendations by medical experts. Perhaps society must accept that there will be a trade-off, although we should always try to mitigate any undesirable effects. If, for example, the centralisation in Glasgow of coronary heart care resulted in far better outcomes for patients, far better survival rates, far less intrusive procedures and much greater patient satisfaction, those results would have to be traded off against the possibility that it might be marginally more difficult for people to visit patients. We must ask ourselves what the initial aim is and how we can minimise the less desirable things that may happen as a result of achieving that aim. A heart consultant would say that the initial aim should be to improve survival rates and to encourage lifestyle choices to be taken in our community that will reduce the incidence of heart disease. Indeed, coronary heart disease is a good example to consider. A trade-off may be involved if we create a centre of excellence that will allow procedures to be improved and a move towards better outcomes. However, what we are discussing is not directly related to the efficient government initiative—it is related more to the wider public policy direction in the health service.

**Mark Ballard:** Savings of £45.6 million, rising to £73 million, are expected to be made as a result of increasing NHS consultant productivity. Those targets are efficiency targets. The key to improving consultant productivity is service redesign. It seems to me to be appropriate to discuss service redesign that is claimed as a saving and to ask about the extent to which wider factors that you and I have mentioned are included in the efficient government programme saving of £45.6 million, which is to rise to £73 million. When the Executive calculates positive figures to do with the use of less interventionary medicines, does it also calculate disbenefits that may arise, such as longer journey times?

**Mr McCabe:** I said that a number of criteria are attached to the consultant contract, one of which is the shift from in-patient to day care. The more we achieve such a shift, the more savings will be

made. It may be possible to put a value on someone having to spend 10 or 30 minutes more on a bus, but I do not know how that can be done; indeed, trying to put values on such things would not be the best use of our time.

I will stick to what I said earlier, which is that it may be that there has to be a societal trade-off. It depends on what our initial aims are and how strong our desire is to see improvements in the service. The strong professional advice that we have been given is that certain initiatives will improve outcomes and the patient experience. As I also said earlier, we should do our best to minimise any of the less desirable aspects of those decisions. For example, it emerged from the consultations on service redesign that the general public place an emphasis on having public transport links to the facilities that they need to access. Undoubtedly, that response featured quite strongly on a great number of occasions.

**Mr Swinney:** Over the course of the efficient government programme, the Executive plans to make savings of 4.7 per cent. Roughly computed, that corresponds to 1.5 per cent per annum. In the UK Government programme, the plan is to reach savings of 7.1 per cent which, by comparison, is about 2.4 per cent per annum.

Earlier, you said that the programme

“will step up a gear in the not too distant future”.

Can we take it from that that you are looking to take the Executive programme closer to the level of the UK programme, which will try to achieve savings of 7.1 per cent to 7.5 per cent over a three-year period? Is that what you meant when you said that the programme would “step up a gear”?

**Mr McCabe:** As I indicated, not only is the Government learning from the experience of embedding efficiency gains into the culture of our public services, but it knows the importance of paying attention to the experience of others—we try our best to gain from the lessons that others have learned. Other people are looking at the way in which we are approaching this task and are willing to learn from our experience.

When I took over the portfolio, I said that we would take decisions that best reflect the circumstances in which we find ourselves. That approach has underlined our efficient government programme and will continue to do so.

**Mr Swinney:** Yes, but I am trying to get at the scale of the increase in savings that you envisage. Obviously, the savings will be more than 1.5 per cent per annum.

**Mr McCabe:** As I said earlier, it is clear that these things will have an impact on our overall financial position relative to the comprehensive

spending review 2007. We have still to take those decisions. I do not want to be more specific than to say that we have very strong ambitions to embed this culture more deeply and to pursue greater efficiencies. That is what we intend to do, but it is too soon to be specific.

It would be wrong to use the targets that other people have set as an indicator for the targets that the Executive may set in Scotland. The approach that is taken in other places is entirely different from ours. For example, we have not identified a specific number of job cuts. We have a very good relationship with the trade unions in Scotland, which now have an increasingly good understanding of what the programme is about, the ways in which it can make a positive contribution to the sustainable delivery of public services in future, and how it relates to the general economic circumstances in which we find ourselves. The approach that we have taken has had a not inconsiderable role in fostering that understanding among key players. I want to ensure that we continue to foster that good relationship in our future decision making.

**Mr Swinney:** I hear what you are saying about not wanting to be more specific. Obviously, the issues under debate today are central to the comprehensive spending review 2007. However, I was struck by comments that were made in the minutes of the meeting of the Scottish Executive management group of 31 August 2006. The group received a presentation on the comprehensive spending review 2007 and its likely impact on the efficient government programme. The minutes say:

“For its CSR 07, the UK Government was proposing that efficiency gains of at least 2.5% per year should be made. If the Scottish Executive chose to adopt such a target, it would mean achieving recurring annual efficiency gains of around £2 billion by 2011.”

Although I acknowledge that you do not want to be too specific, it seems that discussion is taking place within the Executive on some of the issues that the Treasury has raised in discussions on the CSR. I am trying to get a feel for whether you think that 2.5 per cent per annum is a realistic figure. Clearly, senior members of Executive staff have chewed over that number.

11:45

**Mr McCabe:** Their job is to horizon scan and look at the experience of other places, whereas the job of politicians is to take the decisions. It is worth while making that important distinction. It would be wrong for me to prejudge the outcome of the CSR 2007—that is a very important part of the overall fiscal envelope and we simply do not know what it will be. It is perhaps also wrong for me to prejudge what a future Administration will do.

Different people have the ambition to form the next Administration—

**Mr Swinney:** They certainly do, Mr McCabe.

**Mr McCabe:** If you see good cause in replicating what is happening down south, you are entitled to that view. My view is that it is too soon to say.

**Mr Swinney:** On the wider efficient government programme, the Audit Scotland report makes the point that

“Around 85 per cent (by value) of the current projects rely on delivery by local bodies”.

Can the Executive do more to increase its contribution to the efficiency improvements?

**Mr McCabe:** First, we need to put the matter in context. A reading of the efficiency technical notes for health tells us that 22 separate initiatives are involved. In other words, 22 different parts of the health service contributed to the efficiency notes. When the Audit Scotland report talks about “local bodies”, we need to remember the wide-ranging nature of the programme.

Secondly, the Executive is making no less a contribution than others are in both the efficient government programme and public service reform. Given that we are pursuing a culture change in public services in Scotland, it would be entirely wrong for the Executive to preach to others while adopting the status quo. The Executive has made a pretty significant contribution. One example is the current flat budget line for administration. The Executive is demonstrating—although it could demonstrate yet further—that it is prepared to change its practices and the way in which it relates to its delivery agents.

**Mr Swinney:** When we look at the efficiency savings that have been made, area by area, we see the wide range of contributions that have been made. Over the period to 2007-08, we see that savings range from 0.6 per cent in the tourism, culture and sport portfolio to 7.4 per cent in the Justice Department. I appreciate that there are horses for courses in all of this. However, the range of savings that the Executive is contemplating is pretty wide. Can I take it from what you have just said that the Executive accepts that the balance will change in future, given the greater opportunities to secure further efficiency savings in areas that the programme may not have affected thus far?

**Mr McCabe:** A number of issues are involved. First, the balance has changed. I will return to that point in a minute. The general proposition reflects our acknowledgement that not everyone started from the same baseline. Different levels of contribution were therefore set at the beginning of the initiative.

On a number of occasions, I have spoken about pursuing continuous improvement and the engagement that officials across Executive portfolios have with each other. Part of that engagement has involved counselling people towards a different understanding of what they can contribute to the programme. People may have started off at a particular level, but committee members can see today that, as the programme has matured, we have moved towards a much more uniform contribution across portfolios. Each portfolio is now making a contribution of about 6.6 per cent towards the overall target. I am not saying that that approach is set in stone. Depending on future programmes, it may well be justifiable for different portfolios to sign in at different rates. However, over the course of any programme, it will be appropriate to review the contributions and, if possible, aim for more equal contributions across portfolios.

**Craig Russell:** This is part of the challenge process. I hate to keep referring to the critical friends but, if someone says to me—and this was in the committee's 2005 report—that a department is delivering 0.9 per cent, I will expect that department to come to me and explain why it cannot increase its contribution. As the minister says, we have to do that in a way that does not undermine the quality of the service; it is part of the official arm wrestling.

**Mr McCabe:** I am happy to report that, even though different portfolios have substantially increased their contributions, I do not feel particularly alienated.

**Mr Swinney:** So it is a combination of arm wrestling, counselling and a conversation with a critical friend.

**Craig Russell:** Absolutely.

**The Convener:** It used to be called sticks and carrots.

**Mr McCabe:** I do the counselling.

**Mr Swinney:** I cannot imagine what the minister's counselling is like.

**The Convener:** I will bring in Jim Mather for the final question of the morning.

**Jim Mather:** I wanted to pick up on points made by Mr Russell a moment ago. Practitioners looking to improve quality debate whether the focus should be on what many of them call arbitrary numeric targets or on consistent worthy objectives that cascade down through an organisation so that everyone is working towards the same objective. How comfortable are you with the fact that the focus is, it seems to me, very much on arbitrary numeric targets?

**Mr McCabe:** We should not consider the targets in isolation. A lot of work goes on alongside these initiatives to try to achieve a culture change rather than simply a saving of pound notes. We spoke earlier about the learning and sharing culture that has been encouraged throughout the public sector; that is making a strong contribution towards an overall culture change.

At the same time, we do indeed have to cascade learning throughout the public sector. We are trying to do that in a number of ways and through a number of initiatives. However, we have to consider the world as it is. The public may not understand, and should not necessarily be involved in, the minutiae of different activities in the public sector. The indicator that people see first is the financial indicator. Of course, they also have a strong interest in service quality and in customer care—the way in which they are received and responded to. However, money matters, and the financial indicator gives people a strong signal. That said, we fully acknowledge that other signals are important too.

**Jim Mather:** I accept some of those points.

A culture change is under way and some of the vocabulary is in play. Given the skill, commitment and motivation of people in the public sector, what steps do you plan to take to allow public sector productivity in Scotland to converge with that being achieved across the UK economy?

**Mr McCabe:** I have said this before, but I do not think that our ambitions for the productivity of the public sector know any limits. I have said on many occasions that public sector productivity is one of the important keys that will allow us to sustain services in the longer term and meet the public's aspirations.

The present climate of macroeconomic stability—our employment rate is good and above the UK average and a high percentage of our people are economically active—is conducive to the pursuit of increased public sector productivity. Whatever the outcomes, we will be better able to absorb any individuals in other aspects of the economy.

**Jim Mather:** The key word there was “outcomes”. It would be wonderfully illuminating if outcome criteria were managed regularly as a by-product or final endgame of the efficiency technical notes—so that we could see how outcomes were changing, and so that people could get a real feel for what they were getting for their money.

**Mr McCabe:** I would go further than that. We spend a breathtaking amount of money on local government and health. The direction of travel in Scotland should be towards referring not simply to the outputs of investment but to the outcomes in

terms of what people see and feel. I have said many times that the direction of travel in local government is towards a different relationship—one that focuses more on outcomes. That would be appreciated by people in local government, and I am convinced from my experience as a council leader on two occasions that, over time, it would produce a far greater degree of satisfaction among the public. It would also give us a far greater chance of sustaining services.

**Jim Mather:** Do you have in mind a single unifying outcome—one that could link local government, national Government, quangos and so on, and one that could give a more meaningful efficient government focus?

**Mr McCabe:** If I had that in my mind, I would probably become the type of consultant that I think Mr Arbuckle was referring to and make myself a whole load of money quite quickly.

**The Convener:** That is a happy note on which to finish. I thank committee members for their questions, and I thank the minister and his officials for joining us today.

11:57

*Meeting continued in private until 12:26.*





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