

FINANCE COMMITTEE

Tuesday 8 September 2009

Session 3

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CONTENTS

Tuesday 8 September 2009

Col.

PUBLIC SERVICES REFORM (SCOTLAND) BILL: STAGE 1	1413
PUBLIC SECTOR PAY	1458

FINANCE COMMITTEE

19th Meeting 2009, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Jackie Baillie (Dumbarton) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

*James Kelly (Glasgow Rutherglen) (Lab)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Murdo Fraser (Mid Scotland and Fife) (Con)

Kenneth Gibson (Cunninghame North) (SNP)

Lewis Macdonald (Aberdeen Central) (Lab)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

John Baillie (Accounts Commission)

Robert Black (Auditor General for Scotland)

Garry Clark (Scottish Chambers of Commerce)

Russell Frith (Audit Scotland)

Lynn Henderson (PCS Scotland)

Susan Love (Federation of Small Businesses)

Neil MacCallum (Institute of Directors)

David Moxham (Scottish Trades Union Congress)

Don Peebles (Chartered Institute of Public Finance and Accountancy)

Peter Ritchie (Unison)

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LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 8 September 2009

[THE CONVENER *opened the meeting at 14:04*]

Public Services Reform (Scotland) Bill: Stage 1

The Convener (Andrew Welsh): Good afternoon and welcome to the 19th meeting of the Finance Committee in 2009. I have received apologies from Jackie Baillie, who will join the proceedings later. I ask everyone to turn off mobile phones and pagers, please.

Our first agenda item is the taking of evidence on the Public Services Reform (Scotland) Bill at stage 1. Our first panel of witnesses represents business organisations. I welcome to the committee Garry Clark, the head of public affairs at the Scottish Chambers of Commerce; Susan Love, the Scottish policy manager of the Federation of Small Businesses; and Neil MacCallum, a policy consultant with the Institute of Directors in Scotland.

I will start with a general question. Although supportive of the direction of travel of the Government's public services reform programme, the submission from the Institute of Directors urges

"further change and a faster pace".

First, I ask Neil MacCallum to expand on that for the committee. Secondly, I ask the other members of the panel for their views on the public services reform programme.

Neil MacCallum (Institute of Directors): I preface my comments by saying that we welcome the direction of travel and see much to be encouraged about in the principles that lie behind the bill. However, from discussion with fellow members of the institute, it is clear that there is a desire for more to happen more quickly. The rationale for that, as we say in our written submission, is that the landscape is cluttered and there is confusion. We would like to see a clean out to create a more productive basis for the development of a more mature debate about the political economy that surrounds many of the issues in the bill.

To say that we should be moving faster is less about a knee-jerk reaction than it is about asking how we can be more productive and clean up some of the confusion that exists. There is not only an opportunity but a strategic rationale for

that, which is somewhat overdue in the view of our members. It is a matter on which we have campaigned for some time, during which we have emphasised repeatedly that the size of the public sector is an interesting area for debate. Linking size to questions of effectiveness, efficiency and the improvement of productivity is a much more challenging debate, but we would like that debate to be had much more fully, with more evidence brought to bear. There are questions in our minds about how we have arrived at the current position and, more important, how we can improve things from here.

In our written submission, we suggest that there is a need to move forward beyond principle, with more ambition to make changes in practice—changes that will go deep in terms of the culture that exists in Scotland rather than changes at a surface level. That is the reason behind some of the comments that we have made about target setting, for example, and some of the numbers—which I am sure we will come on to later—for the cost savings and benefits that can be generated. We have some scepticism about the ambition and accuracy of those numbers. We would like more direct responses not only in improving what exists at the moment, but in thinking about new and innovative ways to deliver services in the future.

The Convener: You started by talking about a clean out. To avoid confusion, can you give us some examples of what you have in mind?

Neil MacCallum: Many examples appear not only in the background papers to the bill, but in the Scottish Parliament information centre briefings and other papers that have been circulated. Some of the proposed changes are sensible, but they are small changes at the margins. The question is how we can get greater and more incisive change that does not damage the provision of services but which offers greater value—not simply value for money, but value in terms of how consumers and customers relate to services.

The Convener: But can you give us any specific examples?

Neil MacCallum: There are many. We could sit down and map out, across social services and health care, the layers that exist across the country. We could do one of those famous mind-mapping exercises and ask why an organisation exists, what its rationale is, what its key aims and objectives are and how they all link together in a complete package to deliver services in an efficient and effective way. In my view, such a mapping exercise would be the place to start. That would lead on to a more involved debate. I have some experience of that debate in other countries. Most recently, it has occurred in Ireland, where the issues are being examined closely. We can learn a lot from the Irish experience of analysing the

situation and thinking about how to assess and measure performance and productivity, reconfigure organisations within the public sector and think about the operational models that lie behind those structures.

Garry Clark (Scottish Chambers of Commerce): I agree with much of that. There is a need for a mature debate that gets to the fundamentals of public services in Scotland and the wider United Kingdom. Our economy has reached a stage at which the UK Government's actions will create a substantial amount of public debt that will have to be repaid. That will have significant impacts on budgets in all parts of government, whether local government, the Scottish Government or the UK Government. From that point of view, this is an appropriate time to examine some of the challenges and opportunities that lie ahead in addressing some of the issues in the public sector.

There are positive suggestions in the bill. We have stressed for many years the idea of rationalising some public bodies. When the present Government came into being, we were particularly pleased that there was a degree of rationalisation of the skills networks in Scotland with the creation of Skills Development Scotland. We need to consider that even further. To take the skills networks as an example, we have Skills Development Scotland, Scottish Enterprise, which is still in the picture, the Scottish Further and Higher Education Funding Council and sector skills councils. There are all sorts of public bodies in that field. We look to the public sector to work more closely together and focus its resources more than it has done already. The bill is particularly strong in making a head start on some of that but, as Neil MacCallum said, there is still a long way to go in that debate.

Susan Love (Federation of Small Businesses): The FSB's approach is perhaps slightly different from that of the other business organisations. Our members are more regularly thought of as users of services—particularly at a local level—than potential providers of services in the context of wider public sector reform. They are more interested in the quality and relevance of the services that are delivered to them than in who is delivering them. Our comments about public service reform are framed by the economic situation. We have focused on the parts of the public sector that engage with business—most notably, aspects of local government—and how businesses think those services could be provided more efficiently.

Derek Brownlee (South of Scotland) (Con): I have a question for all the members of the panel. To encapsulate it simply, the bill is concerned with changes to the structures of public services and

with the reallocation of functions between public sector bodies. To what extent does that approach provide an opportunity to drive efficiency in the public sector? If we are to drive real efficiency or reduce the cost base, to what extent do we need to move outwith simply examining structures and consider more fundamentally which functions government at whatever level performs? Do the functions of government need to change as well as the structures?

14:15

Garry Clark: Structural change is important. I already mentioned Skills Development Scotland as an example of a way in which existing functions can be brought together with, I hope, greater efficiencies being created on the way.

We also need to look at more fundamental change in public services. The recent report that was commissioned by the Society of Local Authority Chief Executives and Senior Managers identified that the Scottish Government will have to make real-terms cuts of somewhere in the region of £2.5 billion between now and 2014. The priority for our members is to ensure that we continue to receive the benefit of essential public services, whether that is investment in infrastructure, skills, our health service or economic development and regeneration. Those are important services and if we are to maintain them, it is absolutely vital that we can work within the budgets that we will have. To some extent, those budgets are pretty much beyond this Parliament's control.

We need to react to the situation and we now have a great opportunity to look at public services. Although we are going to have less money to spend, we need to ensure that the services that our members receive from public services are maintained or, indeed, enhanced. We have to look at how we address productivity, for example, and ensure that we continue to receive the best-quality services that are essential if we are to grow our economy within the existing frameworks, but with—understandably—a lower budget.

Neil MacCallum: Undoubtedly, there is a recognition that available funding and funding that will become available in the next few years are much less in real terms than might have been anticipated even recently. That reduction in funding presents us with what I would term cyclical financial pressures that allow us the opportunity to trigger some structural reforms—essential structural changes, in our view.

When we look at the detail of the bill we need to think about the rationale and objectives that lie behind the provision of services, the operational models that I mentioned earlier and how we can look innovatively at the delivery of services in

ways that do not damage or demotivate front-line troops, if I may use that expression. We mention that in our submission.

What, essentially, are we trying to achieve? What are the best routes to delivery? How do we assess effectiveness and efficiency? How do we become more productive? Those are all challenging concepts, especially at the delivery end, and we need to get smarter at understanding them, motivating people who deliver the services, and understanding and recognising what success looks like and how we demonstrate progress. We need to drill down quite deeply on specifics and we also need to set the bill within a specific framework for how we are going to achieve delivery of services within the financial constraints that we will face over the next few years. We need to take a three-sided approach: one that has an operational and strategic perspective; one that is introspective, to see how we are delivering; and one that has an external, realistic perspective of the landscape that exists not only in Scotland but throughout the UK. I suggest again that we can learn from examples of how other countries are tackling such challenges because our experience is not unique. We need to draw on learning from other countries.

The Convener: You are packing in a lot of information. Will you give us some examples?

Neil MacCallum: I mentioned the debate in Ireland, where they are facing fundamental questions such as how they deliver services with reduced budgets and whether they should go down the route of increasing taxes, which could be extremely controversial and damaging and which we believe would not be sustainable. There are lots of questions in that debate about what the options are, what the delivery models look like and how lessons can be learned from private sector activities, which can then be introduced into the public sector domain.

Susan Love: The bill does some tidying up and sets out a framework. Given the long-term nature of the reform process, perhaps that is an inevitable first step. I think that everyone acknowledges that the hard work will be done on the ground; reform will not be brought about by legislative change.

The Convener: In its submission, the Federation of Small Businesses says that it

“supports the order-making powers in the Bill”,

which are

“necessary to ensure a modern, fit-for-purpose regulatory regime”.

What do you mean by that?

Susan Love: We mean the ability to deal with difficulties for business, as and when the

difficulties arise. In the submission, I gave the example of the Civic Government (Scotland) Act 1982, which contains a range of licensing regimes for various business activities. A review was set up and a lot of time and effort was put into consideration of how to improve those regimes, by way of helping local authorities to carry out those functions more effectively and reducing the burden on business. Most of the proposals were not taken forward, because they were not seen as legislative priorities. In our submission, we suggest that a regime that enabled change to reduce burdens more quickly—as happens south of the border—would be a good step forward in supporting sustainable economic growth.

Linda Fabiani (Central Scotland) (SNP): It is interesting to see how the debate has moved on, even since the bill was first mooted. Everyone is now talking about the current economic background. The Institute of Directors clearly says in its submission, which was produced, I think, by David Watt:

“The current position has been allowed to develop over the years and lacked any real overwhelming economic justification or strategic rationale.”

The submission also says:

“it is vital that the Scottish Government and the Parliament have the powers to respond effectively to changing circumstances”.

That might be a reference to part 2 of the bill, under which the Government will have powers to make changes without primary legislation. How does the institute relate that to the Crerar review, about which the submission says:

“There is a real need for delivering the five guiding principles of the Crerar Review of public focus, independence, proportionality, transparency and accountability”?

How do Neil MacCallum and Garry Clark think that that approach fits in with the criticisms of the potential use of the part 2 powers?

Neil MacCallum: First, I will deal with the Crerar principles. As the committee knows, we have been calling for proportionality and accountability for some time. Those fundamental principles need to be pursued. Secondly, I do not see the contradiction with part 2 of the bill that you highlighted. As Susan Love said, we need to think about the framework and then move forward. We need to ask how, in practical terms, we can make the deeper changes that are required. That is why we highlighted those points in our submission.

Garry Clark: I agree with what Susan Love said about part 2. We are both members of the regulatory review group, and as such we have come across a number of issues arising from the consequences—perhaps even unintended consequences—of legislation or regulation, and

the powers in part 2 would be a flexible, agile way of responding to those and addressing them as they arise without the need for recourse to primary legislation. The question how the powers will be exercised is an open one. We still have some caveats, but we view the exercise of those powers as something that could be positive.

Linda Fabiani: Given that times have changed—and changed quickly—since the provisions were first proposed, have those powers become more necessary in the current economic circumstances?

Garry Clark: It is always important for Government to be able to react swiftly and appropriately. Whether at the UK or Scotland level, some aspects of Government reaction to rapidly changing economic circumstances have taken time to kick in, because of the necessity of setting wheels in motion. The bill would allow Government a powerful tool that could be used extremely positively to address issues that arise—not necessarily, although conceivably, as a result of changed economic circumstances.

Linda Fabiani: On the same theme, I was interested in the point that the convener made about the order-making powers in part 2. The FSB has said that it understands that they would be used relatively infrequently. What informed that view?

Susan Love: Given how difficult it seems to be for us all to provide examples of the changes to individual regulations that are required, I do not envisage a rush from the business community to find opportunities to use those powers. Nonetheless, when such opportunities are identified—I have given a couple of examples—it is important that we have the right tools at our disposal to address the issues quickly for business, and to be seen to do so.

James Kelly (Glasgow Rutherglen) (Lab): I refer to Neil MacCallum's comments on the financial memorandum. As you outline in your submission, efficiencies of £13.26 million are planned, against costs of £9.97 million, giving net savings of £3.28 million, but those will not start to come into play until 2013-14. You say in your submission that you are sceptical about the financial memorandum. Will you elaborate on that scepticism and say what safeguards could be built in to ensure that those savings materialise? I am also interested to hear the view of other panel members on the costs and savings that are outlined in the financial memorandum.

Neil MacCallum: When we drafted our paper and shared it with some of our members they asked whether I had mistyped the figures as "million" instead of "billion". They were expecting to see much greater savings, because £3 million

against £30 billion is not a good ratio. If that is the extent of the savings—and I suggest from reading the financial memorandum that it represents the best-case scenario—that reflects the ambition and the ability to drive through real change. There is a tremendous amount of what I have termed optimism bias in the calculation of the numbers. Experience not only in Scotland but in the rest of the UK of the ability to deliver cost savings and efficiency gains in the manner that is outlined, which has been attempted in a number of organisations, is not a success story as far as we are concerned. There is very little evidence of people being able to deliver to the level outlined, never mind to the best-estimate level.

The assumptions that underlie the calculations require a great deal of scrutiny and challenge. We would like to see some more in-depth analysis at an economic efficiency level and to look at how we can drive positive changes that would lead to improvements in productivity. That relates not only to organisations, because we must also consider how we work with people in those organisations, how we address organisations' objectives and the resulting behaviour and performance and, through measurement, how we capture that information, which is notoriously difficult to achieve. That is why we are sceptical about some of the numbers. We think that they are overoptimistic and underambitious.

Garry Clark: That point underlines the need for this committee and others to continue to apply the closest of scrutiny to the claimed savings figures. We would probably be prepared to give the benefit of the doubt that the savings will be achieved. As Neil MacCallum said, even if the savings are achieved, they represent a very small amount. However, they are a start along the way. The issue underlines the scale of the challenge facing the public sector.

14:30

The Convener: The next question will be from David Whitton.

James Kelly: I have another question, convener.

The Convener: I beg your pardon.

James Kelly: Before I ask it, does Susan Love have any comments on the previous question?

Susan Love: I have nothing to add to what has been said.

James Kelly: Perhaps you can elaborate—I do not want you to get away with not answering a question—on the comments in your submission, which express some frustration about small businesses' engagement with local authorities. The submission suggests that local authorities are

not flexible enough and do not embrace change quickly enough. Will you expand on those comments? What could local authorities do to improve their relationship with small businesses?

Susan Love: The comments in the submission were specifically focused on the issue of better regulation at the local level. On the wider issue of local authority engagement with business, how long have you got? I could be here for a while talking about a range of issues.

Let me focus on the regulation agenda for a minute. More than half of all face-to-face interactions between local authorities and businesspeople relate to regulatory functions or regulatory visits. That is a key method of engagement between local authorities and businesses. We believe that there are opportunities not only for businesses to pursue a better regulation agenda at the local level but for local authorities to streamline things better so as to reduce the overlap and duplication that undoubtedly take place.

I will give just one example that has come up recently. Under the Civic Government (Scotland) Act 1982, window cleaners are required to go through certain checks before they can be licensed to operate. Our submission raises the point—which has been raised previously—that we should try to get a more formal agreement among the different local authorities so that businesses that operate in more than one area are not required to undergo multiple checks. However, such duplication still happens and businesses are still asking, “Why on earth do I have to do this?”

Given the budget tightening that is being asked of local authorities, is it really appropriate that we ask all 32 local authorities to produce their own applications forms, processes and fees for matters such as the new knife dealers licensing scheme? The same applies to many aspects of the new liquor licensing legislation. It would be fair to say that the way in which the local better regulation agenda has been addressed in Scotland has been woeful by comparison with what has happened south of the border. We are trying hard, through both the FSB and the regulatory review group, to get that issue further up the agenda in Scotland. We are a small country with 32 unitary local authorities so we ought to be able to do better. However, we have a long way to go.

David Whitton (Strathkelvin and Bearsden) (Lab): It was clear from their opening statements that Mr MacCallum and Mr Clark do not think that the 25 per cent target is nearly high enough. Where would they have pitched the percentage reduction in public bodies?

Neil MacCallum: It is not necessarily helpful to set out with the target of reducing the number of

bodies by 25, 30 or 10 per cent. We should start with a more fundamental perspective by asking what we are trying to achieve, what our objectives are and how we can achieve best value from the combination of activities. We can then get to saying what the output should be, which might be expressed in a range of figures rather than in a spot target. Such targets can put unnecessary pressure on organisations and create unrealistic expectations, which potentially heap up more trouble for the future. That does not seem like a modern approach and I think that adopting a more sensible and analytical approach would bear more fruit. That is part of the desire that I expressed earlier for a more mature debate on the political economy—what we are doing on it, how we are approaching it, how we know whether we are successful and what we can realistically communicate as achievements—rather than simply setting a target of 25 per cent.

Garry Clark: I would not necessarily put a strict figure on how much we want to reduce the number of bodies by. Every situation will be different. The skills agenda is one aspect of that. I am not saying that we should have one skills agency that covers everything; it may be appropriate to have two, three, four or more.

It is important that we address productivity issues. The Office for National Statistics has said that, over the 10 years to 2007, productivity in the public sector declined by 3 per cent, while productivity in the private sector increased by 25 per cent. That is the sort of issue that we need to address. It is not necessarily about putting numbers on it; it is about getting the public sector to be customer focused and to deliver the best productivity possible to ensure that we all receive the services that we need from it.

David Whitton: Mr MacCallum, you said that your members were rather surprised at the amount of savings that were to be made. It will not surprise you to learn that the committee was a bit surprised as well. However, when we put that to the bill team leader last week, he said in answer to me that the bill was not a cost-saving exercise and that what the Government is trying to do is concerned with more efficient public services. What is your reaction to that?

Neil MacCallum: I am definitely all for more efficient public services. Focusing on improving productivity can help to contain and control the upward pressure on costs, so the two are not mutually exclusive; they go hand in hand. It might be a philosophical debate rather than a practical one but, if we address productivity, economy and profitability—which is mentioned in the bill—it will take us in the direction of producing savings and reducing costs as well as delivering effective and efficient services.

David Whitton: Do you follow the Government's line of argument that there do not necessarily need to be any compulsory redundancies to achieve the targets that it has set?

Neil MacCallum: I go back to the point about how we identify a credible indicator of change. Let us look at the changes that are happening in the recession. The labour reductions that have happened in the private sector follow a fairly typical pattern, as far as I can see, in that the reductions are between 5 and 10 per cent depending on which sectors and industries we consider. That is what we expect in a recession, but we do not see similar reductions in the public sector. The one indicator that will point towards change is head count reduction. That is a tricky issue, especially when economic circumstances are not favourable. Indeed, in the past, many have argued that the large public sector is a buffer to Scotland in times of recession. However, that is a false economy. As far as I and my members are concerned, it is not sustainable and a day of reckoning will come. I mentioned the financial circumstances that we are in at the moment and the prospects ahead. As the current cycle plays out, we need to consider the structural changes that we are discussing today.

Garry Clark: It is extremely important to consider employment issues in the public sector. Rather than looking at head count, it is important that we consider the employment costs more widely. They total about 50 per cent of public sector spend in Scotland. It is important that the public and private sectors work on similar principles. For example, our members constantly remind me that, in the private sector, most pensions are contribution based whereas, in the public sector, most are still salary based. Although that situation has changed rapidly in the private sector, it has not changed as rapidly in the public sector, and it is very much adding to public sector employment costs. Indeed, at a time when the private sector is being asked to pay more and more tax, business is certainly unhappy about it. As a result, I believe that employment costs, which are the single biggest outlay in the public sector in Scotland, would be a good place to start.

David Whitton: That brings me neatly to Mr MacCallum's remark about looking to other countries, most notably Ireland. I assume that he means the Republic of Ireland, where there have been wholesale redundancies in the public sector and people have been losing their pensions. Is that really an example that we should be following?

Neil MacCallum: Ireland is an example of a country that is facing up to the reality of a situation in which hard choices have to be made. The debate there started much earlier; indeed, it

started earlier than people might imagine with the publication of a report by the Organisation of Economic Co-operation and Development—

David Whitton: Well, Ireland went bust earlier. *[Interruption.]*

Neil MacCallum: Whatever your comment was, Mr Whitton—fine. My point is that the debate in Ireland started much earlier and consideration of the issue went much wider and deeper; it was accepted that change had to happen and now the consequences are being followed through. I am advocating not that we adopt the Irish model or formula—there was a lot of debate about that in better times—but that we consider the approaches that have been taken in Ireland and other countries, see what we can learn from them and find what suits our country, with its population of 5 million, and the networks and environment within which we operate. That review will throw up certain questions that Susan Love mentioned, particularly on the number of local authorities, the amount of regulation, the current burdens, the extent to which those are appropriate to a country of Scotland's size and structure and how we might instigate a debate about proper improvements to that landscape.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): With regard to the order-making powers in the bill, was the FSB given the opportunity to raise with the Government the comments in its written evidence about the definition of better regulation in the United Kingdom Legislative and Regulatory Reform Act 2006?

Susan Love: I have asked the Government, but I have not yet received a response.

Jeremy Purvis: Was that part of a formal consultation on the bill?

Susan Love: No. We were simply making a suggestion. It struck us as slightly odd that, although this part of the bill largely mirrors the Westminster legislation, the first chunk of the 2006 act is missing from the bill. We simply did not know why and asked whether it would be useful to include it.

Jeremy Purvis: Did the Government consult you on the bill?

Susan Love: We were consulted in discussions with the regulatory review group. It is fair to say that, at that stage, there was not much enthusiasm for making suggestions for improving the bill, and we came up with that suggestion only in our subsequent investigations.

Jeremy Purvis: When you say that there was not much enthusiasm, are you talking about the regulatory review group or the Government?

Susan Love: The regulatory review group.

Jeremy Purvis: Were respective business organisations consulted on the bill?

Susan Love: We certainly have not responded to such a consultation.

Garry Clark: We are in the same position.

Jeremy Purvis: In other words, no.

Garry Clark: Well, we have not responded to anything.

Jeremy Purvis: Right. Given the Government's claim that the bill is part of its simplification programme, the overarching aim of which is to support growth in the Scottish economy, one might have thought it appropriate for it to consult the three business organisations in Scotland.

Susan Love: I am not aware that I was formally responding to a consultation, but it could be that we missed the opportunity.

Jeremy Purvis: I suppose that my question was rhetorical.

I do not know whether you have read the evidence but, last week, I asked the bill team about the changes in economic development—and, in particular, the local enterprise networks—that have already been made. In that respect, Mr Clark has already said that he supported the establishment of Skills Development Scotland. I asked what objective mechanism has been put in place over the past two years to judge the effectiveness of those changes. All your evidence this afternoon has been about what is effective, efficient and cost effective. Are you aware of any mechanisms that have been put in place over the period? Specifically, Mr Clark, on what basis have you welcomed Skills Development Scotland if no objective mechanism is in place to determine whether it is a success?

14:45

Garry Clark: It is certainly a step in the right direction. Our members have long been of the view that the skills landscape in Scotland is too cluttered and complex to interact with, and we are still of that view. Skills Development Scotland has gone a little way towards ensuring that more decision making is kept within what is still a relatively small organisation, covering a number of areas including the careers service and so forth. It is a step in the right direction. However, our members who operate in both Scotland and England find the situation in England better. If they need advice, someone with the right level of skills or an apprentice, they find the mechanisms in England far easier to deal with than the mechanisms in Scotland. That is not to say that the mechanisms in Scotland are not good—I am

sure that they are; they are just more difficult to interact with. Skills Development Scotland is one step better than what we had before, when the responsibility was partly with Scottish Enterprise and partly here, there and everywhere. Skills Development Scotland has brought it all together, but employers are still not finding it easy to engage in terms of skills.

Jeremy Purvis: What parts were here, there and everywhere?

Garry Clark: The careers service, the Scottish university for industry and so forth.

Jeremy Purvis: Were they not all part of Scottish Enterprise?

Garry Clark: Bits were, bits were not. One or two aspects certainly were not.

Jeremy Purvis: I cannot think of any. If you do, maybe you can tell me.

I wonder about the criteria that are being put in place. The thrust of my question is that, if there is to be a simplification programme and you are going to get what you want—a simplified area—with the ultimate aim of public services being more effective, what is the best mechanism for judging whether that is the case? There could be perpetual changes, all with the statement that they will create an environment in which Scotland can flourish. That could be said about any reform, I guess.

Neil MacCallum: On the question of enterprise agencies and Skills Development Scotland, we are in no doubt that there has been a move in the right direction. However, as we mention in our written submission, the issue is the extent to which such changes are objectively assessed and can be rigorously followed through in economic terms. As an economist, I am interested in how we come up with performance indicators and measures that can show what the net effect is. That is part of the mapping exercise that I mentioned earlier, which would look at what we have, what we are trying to achieve and how those can be connected up. Ultimately, they should connect to make this country a wealthier and a better place to live. However, that is often indiscernible or clouded even to those who know that context of operation, never mind someone who is starting out in business or looking to expand their business or someone who is seeking to develop in a new career direction or a new skills area.

The paths and routes of progress are often complex. If we can simplify them and create improvements in the connections that lead to wealth creation, we will have a more sustainable basis for a country that can provide the services that are required at a certain level of quality over a longer period of time without the up and down of

whether we need to do more of one thing and less of another. Let us get the strategic context right and the connections clearly understood and mapped out, make decisions around those criteria and follow through with detailed and robust evaluation exercises. Some of the discussion—not today, but on other occasions—has tended to gloss over the difficulties and challenges of providing robust evidence. It would be helpful if we took a more fundamental look at the criteria and how we track progress, as part of a much wider review for change, which we have mentioned.

The Convener: Why are all those things not happening? You are talking about communication and connecting mechanisms. Scotland is a small country; there should be such contact. How would you cure the problem that you have just delineated?

Neil MacCallum: I agree with your point, which we have emphasised in our submission. Given that Scotland is a small country, it is surely not that tough to sit down and say, “Let’s map it all out and get some solutions,” rather than thinking that the changes are too tough and too controversial and that we cannot go in that direction at any pace, because we need to take everyone with us. The question is to what extent we can continue to persevere with that mindset. How do we get a more mature debate about the political economy, which is more about effectiveness and efficiency and the policies and services that we provide, and how do we make sense of that in a small country? You are absolutely right. I am often perplexed about that, especially when I travel to other countries where more fundamental discussion is more welcome than it is in Scotland. It would be great if we could move to that position and sit down and review things in that manner.

Susan Love: I was smiling at that, because I think that we have to be wary about thinking that certain broad-brush approaches will be the magic answer to public service reform. I know that we often say “private sector good, public sector bad”. It is said that if we streamline and reduce costs, it will be better for the customers. However, look at the retail banking environment for small business at the moment. For a variety of reasons, there is a withdrawal of decision making locally, closure of certain business services and a move to online and telephone services. That is not good for the end user. We have to be careful about how we approach certain public services—our members are users of most of those services.

We approached this issue thinking that if we streamline, it will make life easier. That was a main plank of support for the change in which local authorities took on economic development responsibilities. However, it strikes me that we have just run into a new range of challenges that

are to do with trying to change things in local authorities. It ought to be easier, because now only one organisation is in charge of virtually all services that business uses locally. However, instead of different organisations squabbling, we now have four or five different professional parts of local authorities all squabbling with one another.

I am not sure what the answer is, but we have to be cognisant of what public service reform means to people on the ground. Although the bill is a good start, it will not address the reality of what happens locally for end users of public services. It is a framework; it will not provide the magic solution to those kinds of issues.

The Convener: You are really talking about attitudes and the content of decision making.

Susan Love: Absolutely.

Jeremy Purvis: I heard you welcome the order-making powers, which the Government did not need in order to change all the enterprise networks and the business gateway—it had the ministerial power to do that. You want more of that. You welcomed the order-making powers as a step in the right direction, but you also recognised that no robust evaluation exercise has been provided for. I am not sure what evidence you are giving. If Government is going to make any changes, it should not do so unless it puts in place mechanisms to judge the success of those changes; otherwise, there will be perpetual Government change. If you are very supportive of the order-making powers, you are making that easier for the Government.

Susan Love: I am advocating the use of those powers for the specific function of removing regulatory burden, as opposed to effecting structural change, which I recognise is another part of the process. If a situation arises in which there is obvious overlap and duplication, and there is no current initiative or legislative opportunity to change organisational structures, it makes sense that the tools should be in place to address the burdens. I suggest that those tools will be used infrequently and only when there is clear evidence of a need to do so.

Garry Clark: I agree with Susan Love. We envisage the order-making powers being exercised to address unintended consequences of a piece of regulation that did not show up during regulatory impact assessment but arose in the application of the legislation or as a result of a regulatory or enforcement body’s interpretation of the legislation. Flexibility that enables the Government quickly to address the needs and concerns of business is welcome.

The Convener: This part of the meeting has been quite long and I must draw it to a close soon.

Joe FitzPatrick (Dundee West) (SNP): David Whitton made a comment that might cause offence to our colleagues on the Select Committee on Finance and the Public Service in the Dáil. Members of that committee might point to the decade of spiralling debt and say that it is the UK that has gone bust. Does the UK's enormous financial deficit give the bill extra urgency?

Garry Clark: As we said, the bill's contribution to addressing the need to make financial savings is small but welcome. On the state of the public finances, the report that the Centre for Public Policy for Regions produced for SOLACE makes extremely worrying reading. The CPPR said that the Scottish Government will have to find 8.5 per cent efficiency savings during the next five years, but if we take health out of the equation, the figure goes up to 13 per cent, and if we want to keep the current level of employment costs, savings of 25 per cent must be found from other bodies. There is a much bigger picture out there on public service reform. We are not saying that public services are a bad thing—quite the opposite. We want our public services to be maintained and enhanced, but if we are to do that, we face serious challenges and we need to have that debate.

The Convener: I hate to sound depressing, but there are worse estimates.

Neil MacCallum: We all recognise that funding will not be available to enable us to continue as we are. As the convener said, there are various estimates of how large the gap will be during the next few years, but we are talking about—dare I say it?—billions rather than a few millions.

That takes me back to the bill's ambition and our ability to see change through. We need flexibility. In the private sector, there is a need to make decisions quickly and to act on available information. Decisions need to be informed by an assessment of risk—in relation to public sector services many risks of different hue need to be assessed. There are ways of assessing risk properly and there are ways of making change happen.

It is clear that we will not have the luxury of resources that enable us to continue as we are and that we will have to make changes, not just in Scotland but throughout the UK. There are not hundreds but thousands of organisations throughout the UK and their costs run to £50 billion or £60 billion a year. How can we sustain that? How do we get an informed debate? We can learn from other countries and we can go back to the fundamentals of what we are trying to achieve and consider how we can deliver services with additional value rather than reduced quality. There is a way of doing that and there is much that we can learn.

Derek Brownlee: The FSB said in its submission that the introduction of order-making powers mirrors the approach in the Legislative and Regulatory Reform Act 2006, which applies in England to the areas that are devolved to Scotland and applies to reserved areas throughout the UK. In practice, how effective have the powers in the 2006 act been? Are there examples of their being used positively at UK level?

Susan Love: I understand that the 2006 act has been used to make changes more quickly. It is important to acknowledge that it is part of a wider agenda south of the border. Getting the right regulatory framework is only one part of a wider process. We were suggesting that the approach might be useful for us, as would be the other parts of the process that we do not have in Scotland.

The Convener: Do the witnesses want to make final comments before we conclude this part of the meeting?

Neil MacCallum: I want to reiterate what was said about the need to consider how we move forward in a way that rebalances the roles of organisations and the provision of services in the public sector, drawing lessons from other countries and from the private sector. There is no one-size-fits-all solution. We need to map out the issues and consider how they are connected, and we need to consider how we prioritise services that are required and deliver them in a sustainable way.

The Convener: I thank the witnesses for attending. Your insights will be helpful to the committee.

15:01

Meeting suspended.

15:04

On resuming—

The Convener: Our next panel is from the trade unions. I welcome the witnesses. Lynn Henderson is from PCS Scotland, David Moxham is deputy general secretary of the Scottish Trades Union Congress and Peter Ritchie is the chair of Unison Scotland's non-departmental public bodies committee.

I will start with a general question. As the witnesses will be aware, the bill is only one part of the Government's wider public services reform programme. It will be useful for the committee if the witnesses could set out their views on that wider programme. In the light of the current financial situation, is this the right time for the Public Services Reform (Scotland) Bill and the wider programme of which it is part?

David Moxham (Scottish Trades Union Congress): I thank the committee for the opportunity to speak today. I apologise that the STUC—unusually, as most people will know—has not been able to provide written evidence, but we will do our best to fill in the details as we go along. I am not surprised that we have started with that general question, and members will not be surprised to hear that I take exception to some of what was said during the committee's evidence from the previous panel.

On whether this is the right time for the bill, I think that the answer is yes, because the type of reorganisation that the bill provides for, like all such reorganisations more generally, will take a number of years to kick in. The idea that the programme should be stopped or postponed—the programme would, arguably, be more expensive when it was restarted—because the public sector's finances are in such a state of flux is not helpful in the current situation. We are content to comment on the bill, which we believe is a small and conservative measure that will probably be reasonably effective in achieving its aims.

On the wider public sector reform agenda, let me respond to some of the points that the committee heard from the previous panel. I felt like I had just landed on a different planet when I heard that the current problem had been caused by the public sector and is costing business higher taxes. Our take on the current situation is that the absence of regulation and the need to bail out the banks have put us in a relatively difficult situation.

I was also amazed to hear the evidence from the previous panel on public sector productivity. I encourage the committee to read the ONS publication that was cited—it was published in early June 2009—which purportedly shows productivity over the past 10 years as having increased by 26 per cent in the private sector and as having fallen by 3 per cent in the public sector. That report starts out by stating that it is an entirely experimental attempt at assessing public sector productivity and goes on to say that it takes no cognisance of inputs, such as the worsening of the situation of the client group that public services try to provide for. The report also makes no reference to the fact that the private sector will show greater productivity over the past 10 years because of the "good performance" of the banks and of the drinks industry, which for various reasons continues to promote increased consumption of alcohol. The report does not take into account any of the impacts that that industry's activities have had on the national health service or on any of our other services. To hear such a comparison being quoted to Parliament was quite difficult for me to deal with.

The reality of the situation is that the public services have undergone a process of modernisation and efficiencies over the past five or six years. It was started by the previous Executive and has been continued by the current Administration. Over that period, public services have engaged in a range of new shared services and initiatives, including joint procurement and management of sickness absence not only in the health sector but in the public sector in general. Year on year, the public sector has achieved the savings targets that Governments have asked from it. That is the public sector efficiency agenda that matters—not the agenda that is suggested by business organisations that proffer generalities without offering any specifics.

The Convener: If I picked you up correctly, you suggest that the changes will take years to kick in. Do we have years, given that public finances are in flux? Estimates of reduced budgets give the flavour of the financial tsunami that might be about to hit all of us. Therefore, do we not need to get rid of the budget deficits? How do you take that into account?

David Moxham: I was not saying that we are not facing a difficult financial situation: indeed, we can expect cuts, unless we are able to convince both the Chancellor of the Exchequer and the Scottish Government that their income-raising powers mean that an alternative course is open to them. We will continue to try to do that. However, when we look at programmes such as the public services reform programme or the range of other initiatives that have been introduced by successive Administrations, we see that they take time to introduce, precisely as I suggested. There is no way that that will not continue just because we do not want it to happen.

The Convener: How do we achieve efficiency without job cuts?

David Moxham: It is difficult to contemplate that. I am certainly not here to tell the Government what to do in the current circumstances, or even to advise it on that. However, I am absolutely clear that mitigations such as increased involvement of the private sector or increased rationalisation or efficiencies often mean precisely that—job cuts.

The Convener: The committee does appreciate advice.

Joe FitzPatrick: Following on from that point, Unison's written submission is generally supportive of the proposals and of the reduction in the number of quangos. How important to that continued support is the Scottish Government's commitment, or intention, not to have compulsory redundancies? How damaging would it be to relationships if that intention was to go?

Lynn Henderson (PCS Scotland): I was at the meeting in November 2007 at which the First Minister gave the civil service unions the guarantee that there will be no compulsory redundancies, which stands until March 2011. We are very much aware and appreciative of the fact that the guarantee is unique in the UK and that our colleagues south of the border and in other parts of the public sector in Scotland do not have the same guarantee. As the economic climate worsens, it becomes more and more difficult when others see that we have that guarantee in place. I am concerned that, post-2011 and in the period up to it, there might be changes. Job reductions have occurred in the public services in the recent period. Since 2004, 100,000 jobs have gone from the civil service throughout the UK, including in the Scottish Government and Scottish non-departmental public bodies. That has been achieved through voluntary redundancy. People have been fairly happy to go, if the time and the conditions have been right. The unions have never been against that and we are not against efficiency in that way. However, you can pare down only to the bone. We are reaching a stage at which the issue will become a problem.

There is certainly a wider current problem. A UK issue that impacts heavily on our members in the Scottish Government and on devolved areas is to do with the civil service compensation scheme. If members have not heard of the scheme, they will soon. Proposed changes to the scheme are currently out for consultation. The scheme covers the redundancy terms that our members in civil and public services have enjoyed since Margaret Thatcher's days in 1982. The proposal is to reduce their rights and terms of redundancy so that voluntary redundancy will no longer be such an attractive option. The committee will get where I am coming from—the more voluntary redundancies are squeezed, the closer we get to compulsory redundancy. We will all have to face that. That is one of the wider issues that the PCS wants to bring to the committee.

Peter Ritchie (Unison): Joe FitzPatrick is correct that Unison supports the public sector simplification programme. We are of the view that anything that makes services more accountable and efficient is to be supported. We are also aware that the public sector has undergone change, not just in the past five or six years that my colleagues have talked about, but since much further back. We have always coped with it. Change will always happen and jobs will come and go, but the key point is that the change must improve efficiency or make services more accountable and more relevant to people. For example, there is no great saving to the country if regulation services are removed from the Scottish Commission for the Regulation of Care by

reducing the frequency of inspections over the years. Jobs would be lost, but local authorities would likely have to pick up the burden in order to ensure that they could keep up to speed with contract compliance. They would carry out their own inspections of providers. That would just be shifting things about. The important thing is to manage those things properly so that the services that are offered improve. We are not opposed to that, as long as it makes sense for things to be realigned, if I can put it that way.

15:15

I will give an example of what I mean. Over the past 10 years in particular, lots of local authorities have amalgamated housing and social work. In those cases, very little tends to change in how services are actually delivered. There still needs to be a head of social work and a head of housing, but there will also be someone working over and above them who is either a social work professional or a housing professional. That does not change how the services are delivered. Joint working needs to be encouraged, and a lot of that is going on throughout Scotland just now, particularly in the health and community care partnerships that are operating across the country.

The Convener: You talk about maintaining services and effectiveness—in other words, the quality and effectiveness of change, rather than having reductions for the sake of it. It is a matter of targeting change but maintaining the service that is offered.

Peter Ritchie: Yes.

The Convener: Is that achievable?

Peter Ritchie: I am not necessarily sure about the figures that our colleague from the Institute of Directors mentioned with reference to this matter. When he said that we are looking for £3 billion of savings, it crossed my mind that there would be nobody to talk to about savings if we made £3 billion-worth of savings. The public sector would be decimated—there would be no services if we attempted to reach that scale of saving.

It is possible to make efficiencies, often around the margins, but the important thing from our point of view is that the service is what people want and what the public expect—and people's interests should be protected.

Derek Brownlee: Let us assume for the moment that there will be a real-terms reduction in the revenue budget, and that there will not be any additional revenue raising at Scottish level, through user charges, council tax, business rates or whatever. Let us take those two things as given. We hear various figures being quoted for the proportion of the revenue budget that is made up

by the pay bill. Does anybody on the panel think that it is possible, if we are considering real-terms reductions in revenue budgets, to avoid a reduction in the global pay bill—rather than in individual pay settlements? If no one does think that it is possible—even if you do, in fact—what sort of solutions would you advocate to manage pay bills so that we cause minimum disruption to the users of public services and to the people who work in them?

David Moxham: I apologise to Derek Brownlee, but there are too many hypotheticals there as far as the STUC is concerned. I understand that they might not be hypothetical for the Finance Committee, but we have not given up on the idea of the Scottish budget as a revenue-raising budget. We have not accepted that, just because the chancellor's projections run into 2014, we are where we are and that is where we must be. I will not compromise either my campaigning position or the pay bargaining positions of all my affiliated unions by making guesses on how we should deal with a situation that may well happen, but that we are not prepared to accept should happen.

Derek Brownlee: I was not necessarily suggesting that you make hypothetical suggestions about what you think the public sector budget could be. I understood from what you said—you gave a strong steer, even if you did not explicitly say it—that you thought that revenue raising should perhaps be considered, rather than being rejected out of hand.

The question is simply this: if the pay bill is a significant proportion of total revenue spending and there are real-terms reductions, is it realistic or possible to avoid the total global pay bill being squeezed? Again, I am not talking about individual pay awards or pay rises.

David Moxham: No, that is not possible, simply because the idea of, say, cutting the budgets for equipment, purchases and procurement in the NHS, but not the staff budget, would be meaningless. There is no way in any public service to achieve significant cuts such as those that we have been discussing without affecting the pay bill and, therefore, the services that people receive.

The Convener: How can we maintain services with less money? We are on a fixed budget in Scotland. If we move money to one part of the budget, it has to have come from somewhere else in the budget. We are all in this boat together. Do you have any practical solutions that would help us to get more with less?

David Moxham: The difficulty is that we do not believe that there is an enormously inefficient public sector to be cut, or that there are cotton-wool-cosseted public sector employees throughout

the country whom we can happily throw on to the unemployment list. We are sending the bleak news that, if the budget cuts go ahead, there will be cuts in front-line services. Let us remember that the only real-terms increases in public sector spending since 1997 have been in health and education. The rest has been negligible. Other budget increases have kept pace in real terms but have not increased—that is what we are talking about. I wish that I could find a way out of that for you, convener, but I really cannot. There will be cuts.

Lynn Henderson: Perhaps I could make a suggestion about the billions that are spent on consultants and contractors in the public sector. There is certainly a great deal of waste in failed consultations, failed information technology projects and failed contractors. A lot of money is spent on temporary posts, on filling vacancies with temporary staff and on paying agencies to pay workers the lowest rate of pay when we could have public servants doing the jobs. There are savings that could be made while services and jobs are maintained and better salaries paid.

The Convener: Can you quantify that?

Lynn Henderson: I think Audit Scotland said in a report that came out in the spring this year that £4 billion of savings could be made.

Peter Ritchie: I have practical experience of that. We find that people who are brought in on short-term contracts to work on, for instance, IT systems, are not as motivated as full-time employees who have permanent contracts. I argue that the service is inevitably diminished by that. That applies across the board.

I will respond to what one of the earlier witnesses said about employment costs, which I found to be a bit rich coming from directors. The average public sector pension is £3,000 a year, while the average pension in the private sector for directors is—you pick a figure, but it is a lot more than £3,000 a year. Savings in public sector pension schemes are a fallacy that has been generated by the private sector.

David Whitton: That brings me neatly on to what I was going to ask. You all listened to Mr Clark, who mentioned that public sector pensions are non-contributory, whereas private sector pensions are contributory. What is the trade unions' reaction to the suggestion that there should be a change—that public sector workers should make a contribution to their pensions?

Peter Ritchie: That is another part of the misinformation that is put around. Public sector workers pay for their pensions. As a public sector employee, I make contributions to my pension. The local government pension scheme was recently reviewed and changed to make savings

and efficiencies. Most people accepted that as a way forward, although it meant some diminution of benefits and some raising of what we paid. I do not know where the notion that public sector pensions are non-contributory comes from, because it is not true.

David Whitton: Unison's submission speaks about the missed opportunity

"to establish a statutory pay bargaining framework".

Will you elaborate a bit more on that? The committee was interested in that in a previous inquiry that it did.

Peter Ritchie: We were particularly pleased with the Finance Committee's welcome and helpful report, but we were a bit disappointed by the cabinet secretary's response.

It makes sense to us to simplify the pay bargaining arrangements as part of any simplification programme. There are 140-plus NDPBs throughout Scotland with 40-plus bargaining arrangements. That cannot be efficient or helpful.

The Convener: Is there anything in the Public Services Reform (Scotland) Bill that you like?

Peter Ritchie: Yes. I am just saying that the opportunity has been missed to fit that in. We would like something in the bill about a framework for bargaining. It would not need to be entirely prescriptive, because the detail could be contained in secondary legislation.

Lynn Henderson: PCS Scotland has been working in partnership with the Administrations under devolution for the past 10 years. We have been proud to work in partnership to achieve efficient government and the landscape delivery project. We have worked hand in hand with Administrations and think that there has been a pro-public-service attitude in Scotland, of which we are proud. We might be on the cusp of changing that, but public sector reform is not something of which the unions are frightened; it is something that we have been happy to engage with, working in partnership.

When we talk about efficient government in Scotland, we are talking about a very different scenario from that which our colleagues face south of the border. Efficiency savings have been reinvested in our departments rather than being taken away as cuts. In Scotland, efficiency has not necessarily equated to cuts, and we would not like to see that change, so we are engaged with public sector reform. Some aspects of the bill affect a small number of PCS members, so I have not commented on the specifics. The wider questions have overtaken the bill, in terms of the economic climate that we face.

David Moxham: The convener's last comment implied that there is nothing we like about the bill. Maybe I dealt too quickly with the fact that we do not have an enormous difficulty with the bill or its terms of reference. Our difficulty is with the attempt to use the bill as a battering ram for much greater public service reform. We are talking about 25 per cent of a zenith of a per cent of the public sector budget. We are not quite sure whether the savings will be achieved, but that is not really the point. There are probably some positive aspects in relation to how the voluntary sector and local authorities will deliver their services. We find some of the clearing up of that regulation relatively positive. We are also relatively positive about the way in which the unions have, thus far, been involved in discussion around the bill. It is really the tone of the previous panel and their attempt to use the bill as an opportunity for much further-reaching proposals that we object to.

The Convener: I understand your sensitivities. I was just checking.

David Moxham: I am glad that you did.

Jackie Baillie (Dumbarton) (Lab): I have never known Dave Moxham to be sensitive, but there you go.

You are saying that the bill makes a small contribution to the wider public sector reform but is not going to make a huge difference in financial terms. You believe that it is, broadly speaking, the right direction of travel. Is that a fair summary?

David Moxham: That is correct.

Jackie Baillie: Let us turn to the order-making powers in the bill. I am curious to know whether you think that the scope of the order-making powers in part 2, as they apply to the list of bodies in schedule 3, is appropriate and whether it fits your description of the bill's making a small contribution to wider public sector reform. That gives ministers quite sweeping powers to make changes in the future.

David Moxham: I am afraid that I wrote down relatively brief notes for this response. Jackie Baillie said that I am not very sensitive, but she certainly knows how to hit my weak spots.

To some extent, the committee and the rest of the MSPs are far better qualified to assess whether the secondary legislation procedure and the amount of scrutiny that will be afforded through it will be sufficient. We are certainly not experts in the conduct of parliamentary inquiry. We imagine that you all have your own views, which it would be hard for us to enlighten, however hard we worked on that particular question, which I confess was not that hard.

15:30

Jackie Baillie: Does that apply to the rest of the panel?

The Convener: I take the nods as agreement.

Jeremy Purvis: If I read the submission correctly, Unison welcomes the bill. The submission states:

"UNISON Scotland believes the proposals within the Bill provide for more consistency and flexibility and welcomes the requirement for parliamentary approval".

Parliamentary approval is not the issue—it certainly would have been required previously. The issue is that changes to primary legislation would not be required; in fact, the powers will cover all the bodies—all the NDPBs in which the members whom Mr Ritchie represents—operate. Without the ability for Parliament to amend things, there could be radical changes to the structures of those organisations. Why does Mr Ritchie welcome the powers so clearly?

Peter Ritchie: You will appreciate that I did not write that section of the submission. As I understand it, that matter was picked up by Unison's policy people. I can provide more evidence on that if you wish. My view is that scrutiny and parliamentary approval are not to be feared. Yes—our members will be affected but, as we have said, we do not fear public sector change but accept that it is part of life. It is high up the agenda just now and has been high up the agenda before. It always impacts on our members. Management of it is the key.

Jeremy Purvis: If I heard you correctly, you are saying that you are not concerned about reducing the scope for Parliament to amend any measures that were introduced that could change radically the financial costs, the administration, the productivity and the aims of the bodies in which the people whom you represent work. You are also not concerned about ministers simply having the power to make changes: that is just a minor detail to Unison. I find that extraordinary.

David Moxham: We are happy to be corrected, but our understanding was that some of the broader, more high-profile or large-scale changes had been exempted from that mechanism. However, if that is not the case, we will certainly rethink the matter.

Jeremy Purvis: I am sure that the committee would be delighted to receive any other information, but this was the opportunity to give evidence before the committee.

The Convener: If you wish to supplement your answer in writing, please do so.

Jackie Baillie: It would be helpful if people could reflect on this issue, because it is a key part of the bill.

The Convener: There are no more questions, so I invite the panel members to make final comments.

David Moxham: Thank you for the opportunity to speak today. I apologise if this is not quite a conclusion, because there was one item that I want to mention that I did not get the opportunity to mention before, which is public sector procurement. The bill looks closely at what might be broadly called the regulatory function, but much of what is undertaken in delivery, whether in the voluntary sector or the private sector, is defined more by how the service is procured than it is by how it is related. In the care sector in particular, as well as others, we see examples of standards being undermined by procurement arrangements, particularly where budgetary pressures exist. I know that some of our colleagues in the voluntary sector have gone as far as suggesting that the bill needs to provide some oversight of procurement arrangements. We would not necessarily go that far, or claim to have expertise in that. However, it seems that procurement is often the process in which many of the standards that we are trying to judge and regulate are set in the first place. We certainly recommend an on-going look at procurement alongside this bill.

The Convener: You have sparked Linda Fabiani into life.

Linda Fabiani: I am interested in procurement. I do not know how it would fit in the bill, but it is really interesting, given what other committees of the Parliament have been investigating in relation to tendering for care services and so on. Given that a further written submission on other aspects of the bill has been requested, it might be useful for you to provide something in writing on procurement.

David Moxham: I am happy to do that.

The Convener: I thank our witnesses for attending today. We appreciate your thoughts and practical expertise.

15:35

Meeting suspended.

15:38

On resuming—

The Convener: I welcome to the meeting our final panel of witnesses: John Baillie, chair of the Accounts Commission and the board of Audit Scotland; Robert Black, Auditor General for Scotland; Russell Frith, director of audit strategy

for Audit Scotland; and Don Peebles, the policy and technical manager for the Chartered Institute of Public Finance and Accountancy.

I will begin with a general question. CIPFA's submission states that the bill represents

"a missed opportunity"

for

"far-reaching reform"

of public services. I invite Don Peebles to expand on that comment, and I will then ask other panel members to give their views.

Don Peebles (Chartered Institute of Public Finance and Accountancy): Good afternoon. I am happy to clarify and expand on that point, which I notice recently received some attention in the local media.

First, any bill that is headlined a public sector reform bill understandably raises expectations. We should also consider the wider context in which the bill was prepared, in particular the Crerar review, which carried out a wide examination of Scotland's scrutiny arrangements. One of the review's key recommendations was the establishment of a single scrutiny body, although the report also acknowledged that the ambition, though achievable, was a long-term one.

Interestingly, in its response the Scottish Government felt that more work was needed before the recommendation could be considered in any detail. Has that work been carried out? If so, what was its result? If it has been published, we should discuss it; if it has not, I think that it might represent a missed opportunity.

Secondly—and perhaps more broadly—we need to remember that the prevailing economic circumstances are different from what was envisaged or at least current when the bill was first designed. We need to think about what we want from our public sector and from any reformation of it. Should our ambitions—dare I say it?—be greater than those contained in the bill, or should we seek to provide a legislative trigger to allow services to be shared and operational redesign and, where necessary, structural redesign to take place?

I also remind the committee of the Howat review of work carried out in 2005 which, when published in 2007, referred to the crowded landscape of public sector bodies. After reading the bill, I am not convinced that it will make that landscape any less crowded.

The Convener: You mentioned shared services and structural redesign. Where would such moves be efficacious?

Don Peebles: One ideal example might tie into the power of public bodies, which I hope to touch on when we come to discuss finance. When a number of English local authorities grouped together to provide insurance services, their legislative rationale was the power to advance wellbeing. The initiative fell because, as it turned out, they did not have the power to offer the kind of insurance services that were envisaged, which threw something of an adverse spotlight on their power to advance wellbeing. That is a good example of local authorities trying to group together for what seems on the face of it a positive reason but being beaten by the fact that the power in question was not in place.

The Convener: It is easy to ask for "far-reaching reforms", but what about their content? Moreover, such reforms will mean great change, which is not always welcomed by existing organisations. How would you overcome that resistance? Are there any areas in which "far-reaching reforms" might be implemented easily?

Don Peebles: As you rightly say, there is always a tension between far-reaching reforms and their implementation. Although we might say this or that reform will be easy to implement, it might not necessarily sit easily with the public sector.

I suppose the point is that we as a country need to be absolutely clear about what we want from the public sector and how we want that sector to look. How the sector looks today is probably still very much representative of how it looked in the first year of devolution, and although the bill purports to reform the public sector it is making changes only at the margins. Instead of simply sitting here and setting out what such far-reaching reforms might be, I think that I would frame the question differently. As I say, we should be asking what we want from our public services. What do we want our public services to look like? Once we answer those questions, we can start to think about how we might deliver them.

The Convener: I guess that changes at the margins are the norm and very different from far-reaching reforms.

Does anyone else wish to comment on the initial question?

John Baillie (Accounts Commission): Thank you for the opportunity of doing so. First, though, I should thank the committee on behalf of everyone on this side of the table for this chance to contribute to the debate.

There are several points to make on the question whether an opportunity has been missed. As members know, the Accounts Commission was asked to take on the role of gatekeeper for the performance of future scrutiny to enable the

elimination of duplication, particularly around corporate risk assessments, and to co-ordinate work so that local authorities, for example, do not have to deal with one scrutiny body after another and therefore never get round to the important job of delivering services. I am happy to say that that work is well down the road. We have already reported to the Cabinet Secretary for Finance and Sustainable Growth that, as a direct consequence, we estimate that a first pass will be a cut of around 20 to 25 per cent in the extent of contact with local authorities.

15:45

All of the scrutiny bodies involved—I chair the group of them—have agreed that we will have one shared risk assessment. The education and social work people and others will therefore all sit around a table, reach a view on each council and the risk involved in it, and then set the scope and direction of the work accordingly. That is quite an exercise, and it is under way. Five pathfinder projects are taking place initially to test our work thus far.

Self-assessment also needs to be embedded much more in local authorities. When I took on the role that I have, I was quite surprised by the extent to which local authorities did not have self-assessment mechanisms. We are encouraging and driving things to ensure that local authorities have much readier access to their self-assessment processes. That will eliminate the need for such detailed checking and scrutiny.

Shared services have been touched on. As members know, there are many barriers to making the sharing of services work. We have considered the matter and banged the drum about pushing forward with the development of shared services. A principal barrier is the reluctance of people who might otherwise participate in delivering shared services to give up control of that delivery and trust another person or body to deliver them when the former might be accountable for them. There is a lack of faith in other parties. There are also, of course, the usual disputes over turf that inevitably come up in such matters.

The Convener: I know from first-hand experience that the bodies that are represented before us have practical experience of creating the three Es: economy, effectiveness and efficiency. That practical experience will greatly assist the committee in its work.

Jackie Baillie: I want to ask Mr Baillie and Mr Black about order-making powers. Both have an interest in part 2 of the bill, not least because the organisations that they represent are listed in schedule 3. Will you highlight your concerns in that context?

Robert Black (Auditor General for Scotland):

I will speak briefly about my perception of the matter.

In schedule 3, the minister has a list of bodies, including Audit Scotland and the Accounts Commission, that might be governed by order-making powers. I recognise that the provisions are intended to provide an efficient way of making changes to the public sector landscape, but it is important to emphasise that they must never be used in a way that might undermine auditors' independence in the audit process.

In the scrutiny agenda, it is important to bear in mind the different roles that the different parts of the scrutiny infrastructure fulfil. The inspectorates and the Standards Commission for Scotland, for example, are accountable and report to the Scottish Government. The parliamentary commissioners are appointed by and report to Parliament. Audit Scotland was created for the specific purpose of providing the Auditor General with the services that that person needs to report to Parliament, including on Government and Government performance. The Accounts Commission, if I may say so with John Baillie here, is part fish and part fowl.

John Baillie: I have never been called a hybrid before.

Robert Black: It is a compliment.

The Accounts Commission is part fish and part fowl in the sense that its members are appointed by the Scottish ministers, who have duties and powers in relation to it, but everyone recognises the absolute and central importance of independence for it.

There is a spectrum from inspectorates, which are a quasi arm of Government but independent of it, through bodies such as the Accounts Commission, on to me and the parliamentary commissioners. Therefore, before we go too far into the process, it is important to have a good understanding of how the order-making powers might impact on the bodies that are accountable and report to Parliament on Government. It seems to me a significant step for the executive branch to take order-making powers over the independent audit agency that is accountable and reports to Parliament. That reservation also applies to the Accounts Commission, but I am sure that John Baillie will want to speak on that.

Having said that, I repeat that there is a lot of merit in having a system that allows us to make adjustments to streamline scrutiny without the need to go through primary legislation. However, we need to determine the boundaries of the order-making powers carefully.

John Baillie: The Accounts Commission, as well as Audit Scotland, supports the bill. We are all just a little concerned that the ability of ministers to flex the scope of scrutiny in a way that may be seen to undermine the independence of the scrutiny function is a potential threat to that independence. As the committee knows, independence is real and perceived, but perception can affect and undermine the reality.

The Convener: Public watchdogs must have independence. You are calling for a clear, independent role and a correct reporting structure. You need an agreed delineation that everyone can understand and that protects all those who scrutinise the public and those elected by the public.

John Baillie: Yes. It must also be seen to do that for the sake of the public understanding that the scrutiny bodies are independent.

Robert Black: Convener, your use of the word “delineation” is helpful. We need clarity about the boundary of the order-making powers, particularly in relation to bodies such as Audit Scotland, whose primary duty is to support me in reporting to the Parliament.

Jackie Baillie: Would it not be simpler to remove Audit Scotland from schedule 3?

Robert Black: Yes, that would be a straightforward solution, but I will qualify that statement, as you might expect that I would. The Scottish Government might want to undertake some marginal adjustments in Audit Scotland’s powers and duties in relation to the oversight and co-ordination of scrutiny. We are not well sited on those issues, so I would not want the simple suggestion of removing Audit Scotland from schedule 3 to be adopted without understanding what was in the mind of the Scottish Government when it added the body.

Jackie Baillie: I am sure that, when the minister comes before us, we will have an opportunity to test that. I take it that your independence is the matter that concerns you most going into the future.

Robert Black: Yes, indeed.

John Baillie: Yes. Audit Scotland is one of the early examples of a shared-services organisation, as it was designed to provide services for the Accounts Commission and the Auditor General.

The Convener: Will the bill improve the efficiency of the public sector? If not, why not?

John Baillie: I will respond—I am sure that other witnesses will contradict me if necessary. It seems to me that any reform of public services would involve proposals such as are in the bill. To the extent that the purpose of the proposals is to

streamline and to promote efficiency, effectiveness and economy, the bill should—almost by definition—provide mechanisms to achieve what it is setting out to achieve. It is inevitable that what happens after the bill becomes an act will be down to the individuals who must follow its provisions and implement it. In other words, it will be down to those people to deliver the efficiency, the effectiveness and the economy, but a framework will be in place that will help.

Robert Black: I welcome many aspects of the bill. We should take a balanced view of the scope of what we might call cash-releasing efficiency savings from scrutiny activity. The SPICe briefing captures well the financial calculations that the Scottish Government prepared to support the bill, and we can see that even in the fullness of time the cash-releasing element will be modest.

The big benefits are, first, that we will have—we hope—a more robust, risk-based assessment of public bodies, and in particular local authorities, as a result of bringing together more closely all inspectorates and scrutiny bodies. Secondly, over time there is the prospect of reducing the burden of scrutiny, in local government in particular. If we achieve a situation in which, through the formal oversight of the Accounts Commission, we are communicating well with the other inspectorates in the preparation of risk assessments of individual local authorities and in the streamlining of scrutiny plans, there should be a reduction in the scrutiny burden on local government and other parts of the public sector on which the changes will have an impact.

James Kelly: It is suggested in the financial memorandum that £3 million in savings will be made as a result of the exercise. Auditing can help to drive efficiencies and savings. How do Russell Frith and Don Peebles think that the auditing process can contribute to achieving the savings that are set out in the financial memorandum?

Russell Frith (Audit Scotland): Auditors in the public sector have a wider role than just that of considering financial statements annually. Nevertheless, that audit has the capacity to consider what savings, if any, have been made as a result of change. The Auditor General and the Accounts Commission have value-for-money audit powers and can consider the impact or consequences of change. Two or three years down the track it will be open to the audit process to compare what has happened with what was planned.

Don Peebles: Now that James Kelly has mentioned the figure of £3 million I can talk about it too, because it is important to consider it against the background of the bill’s ambition and the wider context of the overall Scottish budget. Savings of £3 million are at the margin. Cash-releasing

efficiencies are not the only measure, but they are a reasonable measure and it is important that we understand that costs will be incurred over several years prior to the achievement of net overall savings of £3 million.

James Kelly asked about the audit process, but we should perhaps widen our consideration to include the overall scrutiny process, which starts in the Parliament with members' scrutiny of the bill. It is incumbent on us all to be assured that the numbers in front of us are robust and stand up. I welcome the question and the opportunity to consider the matter, but the burden of that consideration should not fall only on the audit process.

As elected politicians, you are responsible for being assured at the outset that the legislation you are examining is properly costed and that it can be passed with a certainty that the figures it contains will ensure that the legislation delivers as it is meant to. I have great respect for my colleagues on the panel, and I am sure that their processes will address many of the issues—it is, as Russell Frith said, open to them to examine such things—but I would like the audit process to come in once it has already been assured that legislation is properly costed and fit for purpose in relation to its overall ambition.

16:00

The Convener: You are talking about something that should be straightforward and obvious, so why is it not happening? What goes wrong in the costing to produce estimates that are wildly out, in spite of the expertise that is applied?

John Baillie: I am not answering that question directly, but I think—

The Convener: We are meant to be the politicians here.

John Baillie: I have been here before.

I am really referring to James Kelly's point. Among the ways in which efficiencies are driven, the exercise of self-assessment within a local authority, for example, often suggests to the people doing it and to those to whom they report that something needs to be tidied up or bettered in some way. That is part of the scrutiny process, and it is no less valid because it happens to be done internally—in fact, it is more valid, because the people are finding things out for themselves.

The other aspect is best-value reporting, whether in a local authority or in central Government. That reporting in itself involves a holding to account, particularly since much of it concentrates on and covers improvement. Those things, as well as a number of others, drive efficiencies.

Jeremy Purvis: What level of consultation did the Government carry out with your organisations with regard to the bill and the core document—the “Public services reform: simplification and improvement update document” of May 2009—that the Government has said leads in to it? How much involvement did each of your organisations have in the introduction of the proposals?

Don Peebles: There was no direct involvement from CIPFA until the bill was produced. The response to the bill that we have submitted to this committee is our first formal public comment—and the first formal opportunity for us to do so.

Jeremy Purvis: Really?

John Baillie: We have discussed bits of the bill in one way or another. For example, we originally raised the issue of the governance of Audit Scotland with the Scottish Commission for Public Audit. It has taken the matter forward, and its proposals appear in the bill. Those aspects, among other things, have been well discussed with us.

Robert Black: John Baillie is absolutely right. There is a miscellany of provisions in the bill. We were aware of and fully involved in some of them in advance, but not necessarily all of them—and neither would we expect to be.

Jeremy Purvis: In response to Jackie Baillie's question, you said that you would prefer not to be included in the schedule 3 list. Did you have an opportunity to say that specifically to Government before it published the bill?

Robert Black: No, we did not have the opportunity to comment on that particular issue in advance of the bill's publication.

Jeremy Purvis: Okay. On a slightly wider issue, I asked the bill team when they appeared before the committee last week about the proposed changes to the enterprise networks, Highlands and Islands Enterprise and the skills functions, which the Government has said are a key part of the overall approach to simplification.

I want to ask about the auditing and scrutiny of that process. What role do your organisations have when the Government brings forward proposals, such as the ones in 2007, to put in place mechanisms for which you would audit, as Mr Frith said, not only the financial aspect but in relation to whether the set objectives are being met? In May, the Government published a list of the simplification programmes in the update document. What mechanisms have been put in place across them?

Robert Black: If I may make an obvious comment, the starting point is that it is for the Government, as supported by the civil service, to make proposals, to explain the purpose and to

present robust cost estimates to the Parliament. It is the proper role of this and other committees to scrutinise those proposals before any legislation is enacted.

The role of audit is retrospective—if I may make a very obvious statement—but we monitor proposed legislation that is going through Parliament and take into account whether it requires any change in audit arrangements. At its simplest, if new bodies are created as a result of the bill, it will be for Audit Scotland, through my colleague Russell Frith, to arrange for the independent external audit of those bodies, as is done for all existing bodies. We would have a piece of work to do on that.

In the fullness of time, we would consult on a forward programme of performance audits. If a signal was coming—principally from the Public Audit Committee but also from elsewhere in the Parliament—that there were issues with the implementation of the bill that could merit a performance review, we would take that seriously. Clearly, however, that would come further down the road.

Russell Frith: I will add something about the structure of the public sector. Skills Development Scotland is an interesting example. It is a limited company. If it was not for changes that were made to the Companies Act 2006, the organisation would have been taken out of the Auditor General's remit. Skills activities came under the Auditor General's remit when they were with Careers Scotland, Scottish Enterprise and Highlands and Islands Enterprise, but they would not have done so when looked after by a limited company if it had not been for some changes that were made to the 2006 act.

In reverse, creative Scotland, one of the proposals in the bill, will be an NDPB and will fall under the Auditor General's remit, but one of its component parts is Scottish Screen, which is a limited company and currently outside the Auditor General's remit.

Robert Black: So I am now responsible for film making. Is that right?

Russell Frith: You will be.

Jackie Baillie: Excellent.

Jeremy Purvis: I would like to come back to the point that I was making, as you did not really address it. The nub of my question was about the nearly 30 changes that the Government is proposing—and without question it has the right to do so. Three of them require statutory changes, which are going through the Parliament, but the vast bulk of them do not. I made a point of mentioning the enterprise networks, because not one of the changes there has required any

statutory change, so your point about parliamentary scrutiny does not apply. The Government stood by its update document, which says:

“The reforms to SE and HIE have resulted in a greater focus”.

I am interested to know whether there is a consistent approach under which your organisations will audit the simplification process. It does not seem that there is. It might be that you can pick and choose what you wish to examine subsequent to the event, but from our scrutiny of the bill, there does not seem to be a consistent mechanism for auditing the overall simplification process further down the line. It is now two years since the announcement of the changes, which fits within Mr Frith's two or three-year timeframe.

Robert Black: We have it in mind that, at some stage, we will look at the new framework for supporting enterprise, but it is not in the short-term programme. It is certainly something that we can take into account.

Perhaps I am not giving a terribly full explanation. Every couple of years, supported by Audit Scotland, the Accounts Commission and the Auditor General produce a forward programme of studies, under which we examine all sorts of policy areas and issues of resource use. That is subject to a fairly wide consultation. It is open to any committee, MSP or other interested party to make suggestions on what goes into the programme. However, we do not have anything specific in the immediate or near future on the particular area that you are asking about.

The Convener: Is there not also a workload problem?

Robert Black: Yes.

The Convener: There is much to look at and much to investigate; the difficulty is with your ability to do all that work. Audit Scotland has a dynamic role, does it not? It does not just go in to consider past problems; it cures problems and allows organisations to move forward much more effectively and efficiently. However, there is a danger of too much workload.

Robert Black: I very much welcome that comment.

John Baillie: As you might expect, the forward programme to which Bob Black referred starts with a much wider list of potential projects that is narrowed down in response to workload and resource issues.

David Whitton: I have been sitting here thinking that when, in a former life, I was on the board of Scottish Screen, I would not have enjoyed very

much the thought of the Auditor General descending on the board.

I will address my questions to Mr Black. I am not sure how long you have been in post, but in your written submission you support the proposal that a person should hold the office of Auditor General for only a fixed period of eight years, to

“help to ensure the independence of the post and stability”.

Will you amplify a bit why you believe that?

Robert Black: It is of great importance that the person who occupies the post of Auditor General should do so for a period that is sufficient to allow him or her to do the job properly without being too concerned about whether they will be reappointed or whether their term of office will be foreshortened. It is a judgment call. Some people have suggested 10 years, but the recommendation in the bill is for eight years, which seems to me to be about the minimum. That covers two full parliamentary sessions, and anything less than that could be a bit destabilising. To take the issue to what I would call an absurd level, if the contract was for only four years, the Parliament would appoint a new Auditor General every session, which would not be in the spirit of the implication in the Scotland Act 1998 that there should be an independent and robust audit regime. Having said that, I do not believe that the term should necessarily be without limit. When I was appointed, it was on the pretty conventional public sector understanding of retirement at 65, but that has been altered in view of age discrimination legislation. Therefore, it does not apply to me at the moment. However, it makes sense to have a reasonably long fixed-term appointment for future Auditors General.

David Whitton: To clarify, how long have you been in post?

Robert Black: I have the enormous privilege of being the first Auditor General—I took up my role in April 2000.

David Whitton: Your written submission talks about who should have the power to set terms and conditions for the post. Will you say a wee bit more about that? I do not want to put words in your mouth, but you seem to indicate that the current situation might compromise the post somewhat.

Robert Black: I welcome the opportunity to expand on that, so thank you very much for the question. I say at the outset that the point is not about individuals or my relationships with anyone; nor is it about me personally. The provisions, if enacted, would not affect me—they would affect future Auditors General. I therefore feel able to speak frankly on the issue. In essence, the issue is one of good governance. Pretty well all the

governance arrangements in the Scottish Parliament are best practice or pretty close to it.

A basic principle of audit is that the auditor should be completely independent of the body that is being audited. I audit the accounts of the parliamentary corporation among those of many other bodies, personally sign the audit opinion and judge whether reports should be attached to the accounts that are laid before the Parliament or whether there should be section 23 value-for-money examinations. I am sure that committee members recall that I have had to do such reports in past years.

16:15

The Scottish Parliament recognised right at the beginning the importance of ensuring the Auditor General's independence by establishing the Scottish Commission for Public Audit. The SCPA is independent of any audited body. It is not responsible for any sets of accounts, but it reports to the Finance Committee and hence to the Parliament. Therefore, it is extremely well placed to scrutinise the funding and audit of the Auditor General. That was the original intention. Audit Scotland was then created, so in effect the SCPA took on the responsibility, which John Baillie referred to, for scrutinising that service-providing body.

That arrangement has worked extremely well over the years, which is why I recommend in my submission that the SCPA might take on the responsibility for deciding the Auditor General's terms and conditions. That would take that responsibility away from the corporate body as an audited body. I emphasise that I am not remotely suggesting that the existing arrangement has influenced in any way the decisions relating to the Auditor General's terms and conditions during my period of tenure; the issue is the principles of good governance. If the SCPA took on that responsibility, that would bring the position in Scotland into line with the principles regarding the independence of auditors set out in the ethical standards for auditors that are issued by the United Kingdom auditing practices board. All auditors in the United Kingdom in the public and private sectors have adopted those standards. The move would not be huge, but if the bill is to be passed, I strongly commend the idea to the committee as one to take seriously.

John Baillie: I emphasise that the Audit Scotland board is entirely behind that proposal. As Bob Black has said, we also discuss such matters with the SCPA. We are not necessarily talking about real independence; rather, we are talking about the perception of independence. Anything that allows the public's perception of

independence to be somehow other than perfect undermines the concept.

Russell Frith: I am a director of Audit Scotland and a member of the United Kingdom auditing practices board. Therefore, I am responsible for setting the ethical standards for auditors. In that role, I find it rather uncomfortable that a key audited body in Scotland has an arrangement that definitely runs contrary to ethical standard 1, on independence and objectivity. Those ethical standards were brought into being after the Public Finance and Accountability (Scotland) Act 2000 came into force. Therefore, the Public Services Reform (Scotland) Bill is essentially the first legislative opportunity to bring arrangements into line with current best practice. I entirely agree with the Auditor General that the bill is a good opportunity to do that.

The Convener: It is good to hear ethical standards being talked about and acted on in this day and age.

David Whitton: The Auditor General's submission mentions appointments to the Audit Scotland board. It says that those appointments should be covered by the Office of the Commissioner for Public Appointments in Scotland.

Robert Black: Yes. I have suggested that to the board. I think that we all think that that would be a good thing. When non-executive members of the Audit Scotland board are being appointed, it is important that we find a way of ensuring parliamentary and public confidence in the robustness and objectivity of the process.

Some time ago, when we were appointing a non-executive member of the board, I approached OCPAS informally through Audit Scotland to ask for assistance, but I was told that OCPAS is not empowered to assist us because we are not covered by the Public Appointments and Public Bodies etc (Scotland) Act 2003. If the bill is to be a miscellaneous bill that covers a number of areas, I suggest that bringing the appointment of Audit Scotland board members within the jurisdiction of the Commissioner for Public Appointments in Scotland would be a good piece of tidying up.

David Whitton: Would the Government's acceptance of your suggestion about which body should control the Auditor General's pay and conditions improve the auditing process of the Government as a whole?

Robert Black: The approach would reinforce the general sense of confidence in the independence of the audit process. Confidence in the process of appointing members of the Audit Scotland board would also be reinforced, given that provisions in the bill give the SCPA a driving role in that, as is entirely appropriate.

John Baillie: As members know, the Accounts Commission is subject to the OCPAS process, which works well—we think that it is a considerable advantage. When we were discussing with the SCPA the proposal to appoint the Auditor General for an eight-year term, we suggested that it might be worth appointing the Auditor General mid-parliamentary session, so that the person straddles three sessions instead of two. Such an approach might provide better value for money.

Jackie Baillie: We all sign up to reducing duplication of scrutiny, but I am not sure that we would sign up to lowering the standard of scrutiny. It is clear to me that you are moving towards increased self-assessment across a range of public bodies, but it is equally clear to me that there has been failure of self-assessment in the NHS on a grand scale. In the NHS there has been a move from little monitoring and no inspection to substantial amounts of both. There seems to be a lack of consistency in that regard. We know that for some public bodies self-assessment would not work on any level. How do we get the balance right?

John Baillie: I will speak to the local authority issue, across the scrutiny bodies that are now involved because there is shared risk assessment. I should have made it clear that self-assessment is not simply taken as read but is tested. When there is confidence in the self-assessment decisions and processes we will be able to move forward, but initially a self-assessment will be tested against the assertions of and the results in the particular local authority. We are not taking anyone's word for anything. There will be a lot of testing, but it will be shared, to avoid duplication, and when the self-assessment process is embedded we will be able to rely more on what we are told, on the basis of previous evidence.

I draw an analogy with what currently happens with any kind of financial audit. Internal controls on the processing of information and the control of assets and funding are designed to ensure that things work properly. The auditor will be told that, and he or she will not only write down and analyse all the information but test it. Only when they have tested it will they have the confidence to rely on it to produce financial statements. In the context of the bill, we are talking about the same principle; the self-assessment will be tested and only then will it be relied on to produce the information that we hope that it will produce.

Robert Black: We are at an early stage. It is good that we should endeavour to rely more on self-assessment, to reduce the burden of scrutiny. However, we will have to think carefully about what we mean by self-assessment, which I

suspect will vary between services and sectors across the public sector.

One obvious but nevertheless important area is child protection services; another is the protection of the frail elderly. I think that we all agree that we have seen a number of serious and most unfortunate events in those areas. In some instances, some assurance was taken from the fact that the organisations involved had systems in place. However, the issue is how systems operate on the ground. The risk and challenge that any auditor going into a public body in any part of the public sector faces on getting an assurance that systems are in place is how to assess the robustness of the operation and the quality of the people who operate those systems. That is the important matter for us. Staff turnover and staff changes are also considerations. Often, the effectiveness of a system depends on not only the professionalism but the insight of the people who run our public services.

This is not an easy area. As we take forward the inspectorates, I am sure that the question of joint risk assessment will arise. We will need to find ways of getting down into some of the issues. It would be a mistake—I am sure that no committee member would make it—to jump to the conclusion that self-assessment is of itself an easy panacea in this complicated area of social policy.

John Baillie: It is fair to say that self-assessment tells an organisation, “You should have these processes in place. If you don’t, the alarm bells are already ringing for us.” If the processes are in place in the areas that Bob Black mentioned as examples, testing will be particularly thorough because of the subject matter. Indeed, one issue in the whole process of scrutiny, co-ordination and gate-keeping is the extent to which individual scrutiny bodies can break rank—child protection is one obvious example—and go into an area. They do that for the very good reason that they have to, regardless of whether they were there three weeks ago or whatever. It is important that, as members of the scrutiny group, we recognise the need for that safety net.

Linda Fabiani: I am really interested in what you have just said—I hasten to add that that does not mean that I am not interested in everything that you have said, but the last bit of the discussion on self-assessment was particularly interesting. From what you said, it strikes me that the process could be more rigorous and could be seen as a move away from the tick-box exercise of quantitative monitoring to looking more at quality.

When I worked in organisations that were in receipt of some public money, we had to do internal audits covering all our functions before the external auditors came in. Do you view self-assessment in that way? I always felt that the

process was a tick-box exercise—perhaps that is harsh—that the auditors did not look underneath that exercise to see whether the organisation had the processes in place and that they assumed that things therefore worked. Self-assessment could strengthen organisations, albeit that the terminology may give the perception that the process is weaker. We should be careful about the terminology that we use. We need to ensure that people truly understand that self-assessment is not an easy out.

Robert Black: If I recall correctly, I offered such a comment earlier in the discussion when we were talking about efficiency and so on. I certainly intended to share with the committee the thought that we are talking more about improving the quality and robustness of inspection than about generating cash-releasing savings. It would be a mistake for any of us to concentrate too much on whether the figure for 2014 is £2 million or £3 million. There are much bigger issues here. They are exactly those about which Linda Fabiani spoke, such as how we use the improved joining up of scrutiny to make scrutiny more robust and more likely to pick up areas of systemic weakness in any public body. How can we promote a good conversation between the Accounts Commission, Audit Scotland, the inspectorates and local authority managers so that we can say, “Look, from the work we are doing, we think there are issues in here”? We must try to be pre-emptive in some of the discussions, although, inevitably and unfortunately, we will need to look back at serious events to try to learn the lessons afterwards.

John Baillie: For some time, the Accounts Commission has been going on about performance management and the measurement of performance, which are not up to scratch in local authorities generally. The situation is getting better, but we are not there yet. That is one example. With improved performance management and measurement, the self-assessment exercise would be a bit better and easier to handle. The absence of self-assessment is, in a sense, a result of the absence of performance measurement in local authorities and a problem with the way in which they collect data, particularly cost data. The core of the issue is to drive forward that measurement and make it part of the system, so that it is done not only when an external audit is coming up, but day to day as part of internal systems. That is what we have to do.

The Convener: As our witnesses have no final comments, I draw this item to a close. I thank all our witnesses for their individual and collective wisdom, which is experience based and which has been helpful to the committee. Thank you for attending and for your evidence.

16:31

Meeting suspended.

16:33

On resuming—

Public Sector Pay

The Convener: The second agenda item is to consider the response from the Scottish Government on the committee's report on public sector pay. I invite comments from members. Are there any comments, or are we satisfied?

David Whitton: No, we are not satisfied. I am deeply disappointed in the lack of response from the Cabinet Secretary for Finance and Sustainable Growth—he has hardly taken up any of our suggestions. He has sort of answered some points, but the answer on several points seems to be, "Thanks for the report, but no thanks." We suggested that formal negotiating machinery be set up, but the Government's response is that it does not believe that we need that. We asked about low pay, but the response is that that is up to individual bodies and that the Government

"welcomes the efforts of local authorities".

The response goes on in that vein. I have highlighted various points. One answer is:

"This is a Local Government issue",

or, "Not for me, guv." On human resources advice, the response is, "Nah, forget it—we can get that if we want it." That was an issue that arose a lot during our inquiry. To be fair to the cabinet secretary, he states:

"The pay policy team would be ready and willing to discuss any specific proposals for flexibilities that public bodies might want to bring to them",

although not the committee, naturally.

I am disappointed by the response, because we went into the inquiry full of good intentions. *[Interruption.]* Who is snorting? Joe FitzPatrick? I thought it might be. We went into the inquiry full of good intentions to try to sort out issues that witnesses raised with us. As I say, the response is disappointing.

The Convener: Linda Fabiani wishes to comment.

Linda Fabiani: Yes—and you will be delighted to know that I will not snort.

We must be a bit fairer to the cabinet secretary. He has responded to some elements of our report by saying that the Government is considering the issue—for example, low pay and bonuses—and that it will report back to the committee. We cannot expect the Government to say that it will do this or that when it has an investigation on-going. I am not as disappointed as David Whitton is. I think that the response is fairly positive.

On the comments that certain issues are local government responsibilities, the fact is that we have a relationship with local government in which local authorities are responsible for what they do and for their budgets. It is healthy that we are moving away from centralisation and from telling local authorities what to do.

The Convener: David Kelly—sorry, I mean James Kelly.

James Kelly: I was nearly renamed there.

The response is pretty inadequate. We had several evidence sessions and we put a lot of work into the report. We talked seriously about the recommendations to try to improve the process. We heard several criticisms of the process and a few suggestions on how to improve it. I accept Linda Fabiani's point that the Government is considering bonuses, but in general the cabinet secretary is not taking up any of our points. I certainly regret the element of saying, "It's nothing to do with me—it's down to local government," which has become something of a theme. The response is not adequate or helpful, particularly given the amount of work that we put into the report.

Jeremy Purvis: I have two specific points. One is on the human resources element, which I confess was not a big issue for me during the inquiry. The reply is identical to what the officials told us. The cabinet secretary has simply signed off what the officials have written, which I think is discourteous. We made a genuine point, which has been sidestepped. The committee should not accept that.

My second point is on bonuses. It is interesting that the Government is considering setting up a review group, which should be welcomed. However, the response states that the Government will

"alert the Committee once recommendations have been produced."

I am not sure whether that means recommendations to set up a group, or recommendations by a group that the Government might set up. I simply do not know, because the reply is not clear, and nor does the reply address the specific point that the committee made, after much discussion, that bonus arrangements should be altered or brought to an end when appointments come up for renewal. I recall that the point was made less strongly than I wanted, but it was nevertheless a unanimous view. The Government has simply ignored that. Given that all members signed up to the point after much discussion, it is not appropriate for the cabinet secretary to ignore it. We have justification to go back to the Government on those two specific

points. Other points are a matter for debate—and they always will be.

The Convener: We can seek clarification on that. There is some dissatisfaction. There might be some satisfaction with the content, but there is clearly no complete agreement on it—and there are some on-going issues. Members' comments have been noted. I suggest that, bearing in mind what has been said, the clerks write to the minister and raise the issues that have been discussed. *[Interruption.]* It is being suggested that I write to the minister. I am very happy so to do.

Joe FitzPatrick: The cabinet secretary has addressed the bulk of what we discussed in our report. He has thanked us for the report, which he clearly found to be useful. We either agree that local authorities have the right to take decisions or we think that the Scottish Parliament should take all the decisions for them. I happen to agree with the cabinet secretary that we have a relationship with local government and that some things are local government's responsibility. For us to start dictating would be fundamentally wrong. I know that there is a difference of opinion on that, but it is perhaps best to accept that we will always have differences of opinion.

Jackie Baillie: I am sorry—I missed the earlier conversation, so I hesitate to contribute, but I heard the comment that the cabinet secretary had addressed the recommendations and I feel that that has fundamentally not been done. To me, it smacked of a Sir Humphrey sort of response, meaning "We know best, and the committee has nothing to say to us on these issues." We got a repetition of the evidence that was given, with no real assimilation of what the committee had actually said. I am fundamentally disappointed. Without intruding on who has a relationship with whom in terms of local government, I am disappointed that the Government has ignored a parliamentary committee report. If that is the nature of the conversation that we have been having by letter, I would be pleased with the proposed course of action.

The Convener: I suggest that I write to the minister, pointing out what the committee has said.

We have a decision to make. Does the committee wish to bid for time in the chamber to debate its report?

Jackie Baillie: Yes.

Jeremy Purvis: There is a reference in the Government's response to a debate on 17 September. Is that a members' business debate?

James Kelly: Yes.

Jeremy Purvis: It is a members' business debate, you say?

Linda Fabiani: Yes. It is the living wage debate.

Jackie Baillie: I suggest that we await the response to the letter that you are going to write, convener, and then take a decision.

The Convener: We can get some advice from the clerk.

James Johnston (Clerk): Could I make a suggestion? The convener could write to the minister, seeking clarification on the points that Jeremy Purvis made, referring the minister to the *Official Report* of today's meeting and asking him to respond to our discussion. We could then wait for a response to that.

The Convener: Is that agreed?

Members *indicated agreement.*

Meeting closed at 16:43.

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