PUBLIC AUDIT COMMITTEE

Wednesday 16 December 2009

Session 3

£5.00

Printed and published in Scotland on behalf of the Scottish Parliamentary Corporate Body by RR Donnelley.

CONTENTS

Wednesday 16 December 2009

PUBLIC AUDIT COMMITTEE

19th Meeting 2009, Session 3

CONVENER

*Hugh Henry (Paisley South) (Lab)

DEPUTY CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

COMMITTEE MEMBERS

*Willie Coffey (Kilmarnock and Loudoun) (SNP)
*Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
George Foulkes (Lothians) (Lab)
*Bill Kidd (Glasgow) SNP
*Anne McLaughlin (Glasgow) (SNP)
*Nicol Stephen (Aberdeen South) (LD)

COMMITTEE SUBSTITUTES

Derek Brownlee (South of Scotland) (Con)
Linda Fabiani (Central Scotland) (SNP)
*James Kelly (Glasgow Rutherglen) (Lab)
John Farquhar Munro (Ross, Skye and Inverness West) (LD)

*attended

THE FOLLOWING ALSO ATTENDED:

Mr Robert Black (Auditor General for Scotland)
Nick Hex (Audit Scotland)
Barbara Hurst (Audit Scotland)

THE FOLLOWING GAVE EVIDENCE:

Sheenagh Adams (Registers of Scotland)
John Clark (Registers of Scotland)
Andy Smith (Registers of Scotland)

CLERK TO THE COMMITTEE

Tracey White

SENIOR ASSISTANT CLERK

Joanna Hardy

ASSISTANT CLERK

Jason Nairn

LOCATION

Committee Room 2

Scottish Parliament

Public Audit Committee

Wednesday 16 December 2009

[THE CONVENER *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Hugh Henry): Welcome to the 19th meeting in 2009 of the Public Audit Committee. I remind everyone to switch off all electronic devices. Does the committee agree to take items 4, 5 and 6 in private?

Members *indicated agreement.*

The Convener: We have received apologies from George Foulkes. In his place today, we have James Kelly.

Later on, we will be joined by members of the Northern Ireland Assembly Public Accounts Committee. Following this meeting, they will have a discussion with committee members and Audit Scotland. We look forward to that.

I draw the committee's attention to the award that was collected by Murdo Fraser on our behalf at the Scottish politician of the year awards ceremony. The Public Audit Committee won the committee of the year award, and I thank members of the committee for their contributions during the year, which led the panel of judges to make that decision. I also thank all ex-members of the committee who contributed to our work. Of course, without the sterling efforts of staff at Audit Scotland, none of that would have been possible. The award will grace the desks of committee staff.

Section 22 Report

"The 2008/09 audit of Registers of Scotland"

10:01

The Convener: Agenda item 2 is on the section 22 report, "The 2008/09 audit of Registers of Scotland." With us for this item, we have Sheenagh Adams, who is the keeper at Registers of Scotland; Andy Smith, the accountable officer and the deputy keeper; and John Clark, the chief accountant at Registers of Scotland.

Do you have an opening statement, Sheenagh?

Sheenagh Adams (Registers of Scotland): No, convener. We have submitted our written evidence to the committee.

The Convener: In that case, we will move straight to questions.

Anne McLaughlin (Glasgow) (SNP): I know that Registers of Scotland is the only organisation in Scotland that operates as a trading fund. How did that come about? In practical terms, how does it affect how you conduct your business?

Sheenagh Adams: We have been a trading fund since 1996. I was not in my post when the decision was made, but the general principle is that trading funds are created for parts of Government that it has been decided will be entirely self-financing. It was thought that that would be the appropriate model for Registers of Scotland, because we can generate sufficient income from the fees that we charge for the registration activities that we carry out and the information provision that we make from the registers that we hold.

Anne McLaughlin: Is there any practical benefit to you in operating as a trading fund?

Sheenagh Adams: There is a range of practical benefits. For example, we are not covered by issues of annuality, which means that we are able to plan our expenditure over a longer period. Further, our income is dependent on the cycles in the property market, and being a trading fund enables us to plan over the length of those cycles, which means that income and expenditure can be matched over a period of time. That means that Scottish ministers can provide fee stability for the people who are transacting in property in Scotland.

Anne McLaughlin: If you were reliant solely on annual central funding from the Government, how would that affect your business?

Sheenagh Adams: Among other things, the fees would have to go up and down depending on the income that we received. Obviously, we might also be a drain on the public purse in the years in which we could not secure sufficient income.

Anne McLaughlin: Does the Scottish Government have any say in the amount of reserves that you build up? Can it put a cap on them, or is that for your organisation to decide?

Sheenagh Adams: The role of Scottish ministers, as set out in our framework document, is to set the fees that we are able to charge, which impacts on the level of income that we are able to put aside to cover the years in which we have lower income. Scottish ministers also set a financial target for me, as keeper, which is the return on capital employed target.

Obviously, we give the Scottish ministers a copy of our corporate plan every year. However, managing the trading fund is a matter for me, as keeper, and Andy Smith, as accountable officer. The Registers of Scotland board, which has non-executive directors on it, has a formal reserves policy, which ensures that we manage the business in a prudent way.

People have written to ministers asking about our financial arrangements, and ministers have responded expressing the view that our reserves have been set at a prudent level, with regard to the range of business that we have to undertake.

Anne McLaughlin: In what way does Registers of Scotland formally account to the Scottish Government for its financial performance?

Sheenagh Adams: We submit our annual accounts to the Scottish Parliament. Our accounts do not form part of the Scottish Government's budgets or accounts.

John Clark (Registers of Scotland): We are not part of the consolidation. We do not ask for any funds from the Scottish Government; we simply produce our annual published accounts, which are audited by auditors appointed by Audit Scotland and are available on the internet.

James Kelly (Glasgow Rutherglen) (Lab): I am interested in how the surplus has been built up. The surplus grew from £5.7 million in 1999-2000 to £122.5 million at the end of 2008-09. Can you give us an overview of how that surplus built up?

Sheenagh Adams: I should start by explaining that that is not a surplus. Those figures are for the reserves that we hold, which are made up of a mixture of cash, our buildings, our information technology systems and money that has been paid upfront for the work that we have yet to do.

The level grew quickly with the expansion of the property market in the early to mid years of this decade. There was a great increase in volumes of transactions in the property market, house prices rose and there was growth in the remortgaging market. Those rises led to us making surplus income, year on year. Our reserves policy is designed to manage that, because we need to keep money for when the property market is not as profitable as it has been. We also need money to invest in improving the registers and to cover any indemnity claims that come in to me, as keeper. The highest figure for property transactions in any one year was £50 billion.

When the reserves got to a level that we considered to be too high for our business needs, we conducted a fee review and Scottish ministers were able to introduce a new fee order, which came into effect in January 2007. Fees were reduced, with the intention of reducing our income and lowering our reserves to the level that we thought was appropriate for our business.

James Kelly: You indicated that, in some of the earlier years, you ended up with more income than expenditure and that, in effect, that money was reinvested. How did you do that? In 2004-05, there was a surplus of £21.6 million. What was your approach to deciding how to redeploy that sum?

Sheenagh Adams: In 2006, we undertook the fee review because we were keen for Scottish ministers to restructure and lower our fees. The intention was that we would run a deficit in future years to reduce the level of reserves. In addition, some of the money has gone into investing in new systems to improve our efficiency, although we have been taking efficiency seriously for many years.

James Kelly: You say that some of the money has gone into investment in new systems, and I think you mentioned buildings earlier. Where is that recorded in the balance sheet? Is it recorded against fixed assets or new current assets?

John Clark: It would be recorded against fixed assets.

James Kelly: Over a 10-year period, the income and expenditure account has grown by more than £100 million but the fixed assets have grown by only just over £15 million, from £15.5 million to £32.3 million. How do you explain that?

John Clark: The reserve figure that you are looking at is in fact the accumulated profits or losses that we have made since becoming a trading fund. If we make a profit at the end of the year, it is put on to the balance sheet in that reserve figure. The balance of that figure is made up of the composition of the rest of the balance sheet. Everything has to square.

James Kelly: I understand that part of it; I am just trying to get a feel for the figures. For example, in 2007-08, the income and expenditure account is £127.1 million, but you indicated earlier that that money is being reinvested in IT, buildings and other activities. I am trying to get a feel for what the money is being reinvested in and how that is represented on the balance sheet.

John Clark: Apart from fixed assets, the largest figure you will see there is cash, at the top half of the balance sheet and at the bottom half.

James Kelly: Net assets.

John Clark: Most of it is in cash.

James Kelly: In that case, is it correct to say that most of that money is, in effect, being held in cash as opposed to being reinvested in assets?

John Clark: Yes.

James Kelly: What was your approach to business planning as that cash surplus was building up? How did you view how that was going to pan out? Did you begin to take a view on what you should be doing with the cash surplus?

Sheenagh Adams: That relates back to the fee review. When the reserves had reached a level that would be more than sufficient for our business needs, a fee review was undertaken and reduced fees were introduced to benefit people who were transacting in property. The intention was that that would reduce our income by around 26 to 30 per cent year on year, which would reduce the cash reserves to the level that we thought was prudent for the business. That was in 2006-07. The reserves increased again between 2006-07 and 2007-08, and we had been looking again at doing a further fee review to pass on the benefit of our increased reserves to the house-buying public. However, at that stage the recession hit and our forecast showed that our cash balances would fall considerably, by more than had been planned as a result of the new fees introduced by Scottish ministers.

James Kelly: What are your business plan and assumptions, for example over the next five years? You are sitting at a surplus in excess of £120 million. You have reduced the fees and you expect the surplus to come down. How do you expect it to pan out over the next five years?

Sheenagh Adams: In our current forecast, in the most up-to-date version of our reserves policy, we would expect our reserves to fall to £38 million in 2014.

Bill Kidd (Glasgow) (SNP): Your plan for deficits covers the next five years—up to 2014, as you just said. As a trading fund that is set up to be commercial and businesslike, obviously you have to be prudent in planning ahead. However, a total deficit of £86 million is projected over five years. Why will there be deficits for a full five-year period? Will the flatlining in the property market affect you to that extent?

10:15

Sheenagh Adams: There was always an intention for there to be a deficit over the next five years. Scottish ministers were aware of that in the financial targets that they would set for us, because that was the impact of the fee review. Obviously, we have done scenario planning on how we think the property market will perform. We take advice and look at the views of the Council of Mortgage Lenders, the Royal Institution of Chartered Surveyors and the Law Society of Scotland in that regard. We do our best to project what will happen. It is not for us to forecast the property market, but to apply our understanding of the market and the information that we get from other commentators to the scenarios that we prepare for our corporate plan.

Bill Kidd: Other commentators have given you an idea that you may well face the projected level of deficit, which seems quite high.

Sheenagh Adams: There were mixed views from commentators. In general, however, people expect a slow and steady recovery in the number of transactions that are taking place. At the end of the day, people still have to move—they change jobs, sell property on the death of a parent and so on—so there will be a slow increase in the volume of transactions. However, there appears to be no prospect of recovery to any extent in the remortgaging market, and house prices have remained much lower than they have been. Our understanding is that there will not be a boom as there has been in previous years. We are taking a cautious approach, but we review the position regularly. We are well into preparing our 2010 to 2015 corporate plan and, as I said in our written submission, we review our reserves quarterly with the board and look at our finances monthly.

Bill Kidd: So you plan to delay some previously planned investments over the next few years. Can you give us an idea of which investments you will go ahead with and which ones you plan to delay?

Andy Smith (Registers of Scotland): Certainly. On the investments that we will go ahead with, we have recently launched our automated registration of title to land system. We will continue to progress that and roll it out to encourage greater use of the system. We are replacing our internal IT systems, which are nearly 15 years old, with more efficient and robust systems. Those are the sort of investments that will continue.

Bill Kidd: Are there any planned delays? Are you thinking about delaying the subsidy for the extension of the land register?

Sheenagh Adams: On the IT side, we are not going ahead with an e-human resources system and we will not replace our telephony system, which is getting quite creaky. On land register extension, there was an expectation that we would put resources into that because of the level of our reserves. However, we will not be able to do that. In any event, we think that it is for Scottish ministers to take a view on how quickly they would like to see the land register extended towards completion; it has been on the go now for 30 years. Obviously, the sasine register is a lot older than that. However, as I said, it is really a matter for Scottish ministers as they consider the policy aspects of land registration.

Bill Kidd: Have you attempted to project beyond the five years what impact the deficits will have on future market prospects?

Sheenagh Adams: We have looked at the five years of the corporate plan, which will be carried forward to 2015. It would not be particularly sensible at the moment to try to predict beyond that, given the volatility that there has been over each quarter of the year. We are managing and looking at the situation quarterly. We are keeping up to date and projecting forward five years, rather than looking way ahead, because we think that such figures would probably not come to pass.

Bill Kidd: On that basis, have you considered whether the investments that can be delayed at the moment will necessarily be required in the longer term? Might some of them not need to be introduced in the first place?

Sheenagh Adams: We had looked to acquire an additional building when the property market was still booming, but we have put that on hold and we see no prospect of it going ahead. That is one investment that has just been parked with no plans to revisit it.

We are trying to make investments that will provide real benefits to our efficiency to save us costs and to save the public costs as we go forward. We are also trying to invest in areas in which our customers look to us to match their expectations as their own business practices change. The legal community is becoming much more focused on information technology and conveyancing is sometimes now done in bulk, so we need to respond to that. Obviously, we also need to be able to respond to the property market as and when it picks up, given that the things that we do are statutory responsibilities that are placed on me as keeper.

The Convener: You say that the acquisition of a new building was being considered when the property market was booming but has been put on hold. Given the organisation's reserves, would it not make more sense to consider buying a new building now when the property market is in the doldrums?

Sheenagh Adams: We do not think that we need the extra space now. The building would have been acquired on the basis that our staff numbers were likely to expand, but the recession has meant that we have controlled our staff numbers and managed them very tightly. We own Meadowbank house, which is a good-value building, and we have no plans to acquire others. We will look at the other property that we lease such as our Edinburgh customer service centre, which is in a leased building in the centre of town. We will look at whether that provides the best value for money and whether investing a bit more in Meadowbank house would allow us to move our customer service centre both to improve the service that we provide and to provide savings.

The Convener: Once we come through the recession and the property market picks up, will an expansion in staff numbers be required? If so, are the existing facilities capable of coping with any future increase in staffing levels?

Sheenagh Adams: On staff numbers, we are currently doing twice the amount of work that we did 10 years ago with only 20 per cent more staff. Obviously, the investment that we are making in systems to move to electronic registration is designed to reduce the need for additional staff. All that I can say is that we are managing these things and considering the situation regularly. As I said, we are trying to manage staff numbers to ensure that we have the right numbers of staff. Our staff are quite expensive because of the training that they require for the complex work that we do, so we are keen to retain our experienced qualified staff and to make good use of their skills.

The Convener: James Kelly referred to the cash reserves. Where are those reserves held?

John Clark: When we became a trading fund, the first thing that we were allowed to do was to open an interest-bearing account at paymaster so that we would gain interest on our bank balances.

The Convener: Sorry, what is paymaster?

John Clark: I mean our central Government account.

Over and above that, we are allowed to invest in the national loans fund to gain an extra 0.5 percentage points in interest. Over a two-monthly rolling cycle, we invest whatever funds we do not immediately need in the national loans fund to maximise any interest that we can obtain. Most of our cash reserves are held at national loans fund at any one point in time.

The Convener: So the bulk of the cash reserves is held in secure facilities.

John Clark: Oh yes. The reserves are not held anywhere other than in the national loans fund.

Willie Coffey (Kilmarnock and Loudoun) (SNP): Many of my questions were answered by your submission, so thank you very much for that. However, the issue of dividends remains a wee bit of a mystery to me, so I would appreciate some help with that. I understand that the organisation was set up with about £4 million of Government money—it is called public dividend capital—that has been repaid over a number of years with payments totalling some £33 million. How does that scheme work? Are those payments at an end or will they continue annually?

Sheenagh Adams: As you said, when the trading fund was set up, something like £4.4 million was invested in it by the then secretary of state; that was transferred over to Scottish ministers' ownership after devolution. Because we were a trading fund, we had to pay a dividend not on that capital, but on the actual capital sum that was employed within the Registers of Scotland trading fund. The figure that would be paid as dividend could be £7 million or £8 million a year—that money was not held in Scotland, but was returned to the Treasury.

In 2007-08, we were asked by the Scottish Government whether we could repay the capital sum of £4.4 million. We considered that and knew that doing so would not have any adverse effects on our reserves, given that we had reserves at prudent levels. We said yes—we could repay that sum, and we did so.

Willie Coffey: Is that payment scheme at an end or will such payments recur year on year if there are substantial reserves?

Sheenagh Adams: We paid back the £4.4 million capital sum that Scottish ministers had invested in the trading fund, so we no longer had to pay the dividend to the Treasury. That means that Scottish ministers can keep fees at current levels. Even though the current recession has been very bad, we have not had to ask Scottish ministers to increase fees. Other countries have not been so fortunate. For example, in England and Wales a 30 per cent fee increase has been required over the past year and we understand that our opposite numbers in the Netherlands have had two fee increases.

Willie Coffey: All your income is accrued from activities that are undertaken entirely in Scotland, but the dividend is repaid straight back to the United Kingdom Treasury. That is interesting. I know that that is outwith your control, but I am interested in finding out more about money that is being raised in Scotland and transferred back to London.

I want to explore the situation should the whole nature of the funding of your organisation change. If the funds that you accrue—James Kelly touched on this issue—were transferred to the Scottish consolidated fund for other purposes, what impact would that have on the way that you do business?

Sheenagh Adams: We seek to be an efficient and effective organisation, so to that extent the way in which we seek to do our business would continue. Obviously, it would be for Scottish ministers and the Scottish Parliament to make changes to the legislation. One of the impacts would be on our ability to even out our income and expenditure over time, so there would be much more fluctuation in fees; obviously, that would impact on people transacting in property in Scotland, because the fees would have to go up and down to reflect our income.

Willie Coffey: I presume that you would envisage more frequent review points for what the fees should be. The review of fees seemed to come out of the blue—it was not clear that a review point was imminent—perhaps because the reserves were seen to be particularly high. Is that the case, or are fees reviewed annually to ensure that they are brought into line?

Sheenagh Adams: We are committed in our corporate plan to doing fee reviews every second year. That does not mean that the fees will change every second year; it means only that we will do a review. In 2006-07, we reviewed the registration fees and in 2008-09 we reviewed our information fees. In the future, we plan to do fee reviews of all fees in the round. We have kicked off another registration fee review as part of that cycle. My colleagues in finance would expect to report to the ROS board on the matter as part of the current corporate planning arrangements.

Willie Coffey: If, as a result of the recession and so on, the reserves were to dwindle down to almost zero and you had to draw on resources, where would those resources come from? Would they come back from the UK Government or would they come from the Scottish Government?

Sheenagh Adams: Our only option would be to ask the Scottish ministers for a loan. There is no legislative provision for Scottish ministers to give us a grant or anything like that. We would have to get a loan, and it would be for Scottish ministers to set the terms on which any loan had to be repaid.

Willie Coffey: So the Scottish Government would pick up the tab, but the UK Government picks up the profits.

Sheenagh Adams: Yes.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): Convener, may I—

The Convener: Sorry, but may I clarify that that is no longer the case?

Sheenagh Adams: It would be. My colleagues will correct me if I am wrong, but my understanding is that if Scottish ministers were to give us a loan, the loan repayments would come back to Scottish ministers. However, that would trigger our having to pay a dividend again, not only on the money that was being invested but on the whole of the capital that was being employed in the trading fund. I understand that the current legislation would require that dividend to move out of the Scottish budget back to Westminster.

10:30

The Convener: That is the hypothetical situation, but you would not be in that situation for some time, given your financial position.

Sheenagh Adams: We would hope never to be in that position, but we would have to see whether the Scottish ministers wanted to give us a loan or whether they wanted to raise the fees. There would be discussions about how best to move forward. However, at the moment our best assessment is that we will weather this deep recession and come out of it in 2014 with reserves that will enable us to cover any indemnity payments and go some way towards helping us out of any future recession if there were one—that is obviously not something that I could predict.

The Convener: Can you tell us a bit more about the fees reduction? How significant was it? What was the average fee before you made the change, and what is the average fee now?

Andy Smith: On an average property sale with a mortgage, after the fee review, the saving to the house buyer would be in the region of £100 on a fee of around £400. The registration fees are based on the value of the property.

The Convener: So, for the average house sale, how much was the fee before the change, and how much was it after?

Andy Smith: I estimate that the fee would have been in the region of £400 for a property to be registered along with accompanying standard security, and that it dropped to around £300.

The Convener: Okay. Thank you. Cathie Craigie has a question.

Cathie Craigie: Convener, you have pursued the line of questioning that I wanted to follow. However, I have another question to ask, unless Murdo Fraser wants to ask his questions now.

Murdo Fraser (Mid Scotland and Fife) (Con): I want to move on to something else.

Cathie Craigie: Why was the PDC repaid in full in April?

Sheenagh Adams: When the Scottish Government asked us to repay it, it asked whether that would have any adverse effects on our reserves. We said no and that we were in a position to pay it back, and we paid it back.

Cathie Craigie: Do you know why the Government asked for it to be repaid at that time?

Sheenagh Adams: That is a matter for the Scottish Government.

Nicol Stephen (Aberdeen South) (LD): I also have a question on the public dividend capital repayment. Were you aware at the time that that meant that the £33 million in dividends that you had paid previously would come to an end?

Sheenagh Adams: Yes.

Nicol Stephen: Was the Scottish Government aware of that?

Sheenagh Adams: Yes.

Nicol Stephen: Was that part of the discussion around the decision that you would repay the £4.3 million?

Sheenagh Adams: We were asked to repay it; we were also asked what we would be able to do with the resources that that would leave us with—the money that would have gone out otherwise. We told the Scottish ministers that we would look at fees and come back to them with a recommendation that we may be able to reduce the registration fees further. However, as I said, the recession hit before we were able to do that. Had we still been paying that dividend, our financial position would be worse than it is at the moment.

Nicol Stephen: I am interested only in the dividend repayments, not the fees issue, and the fact that, in the future, there would be a barrier to any payment of dividends to the Government as a result of the repayment of the £4.3 million. Did you welcome that? Is that something on which your organisation had a view at that time?

Sheenagh Adams: That is not a matter for me to take a view on. We were asked to repay the capital that was invested and we did so because that was not going to have an adverse impact on our reserves. Not having to pay dividends has helped our position in the current deep recession, and we would have been able to reduce fees had the recession not hit.

Nicol Stephen: Can I press you on that? If the Government offered to make a new public dividend capital investment so that the mechanism of paying dividends could be triggered again, would you co-operate with and welcome that?

Sheenagh Adams: It would be for Scottish ministers to consider whether they wanted to invest in the trading fund. I would have to check the legal position to determine whether it would be appropriate for Scottish ministers to put money into a fund that did not need it, as opposed to making a loan when it was—

Nicol Stephen: That is what I am asking. Would you welcome that, and would that be—

Sheenagh Adams: I do not think that it is a question of my welcoming or not welcoming it. I would have to check the legal position. I can do that and get back to you if that would be helpful.

Nicol Stephen: That would be very helpful. Thank you.

The Convener: I presume that, from the Scottish ministers' perspective, the advantage of the situation that developed was, first, that it enabled you to reduce your fees because you did not have to pay the dividend and, secondly, that it generated a capital sum that ministers could use for other purposes.

Sheenagh Adams: Yes, that is correct. We were unable to reduce the fees further at that point because of the recession.

Cathie Craigie: Does the fact that the money was paid back alter the way in which dividends may be paid in future? Will you be able to pay dividends in future?

Sheenagh Adams: There is no requirement to pay dividends because ministers no longer have capital invested in the trading fund.

Cathie Craigie: So there is no requirement to pay dividends to either the Treasury or the Scottish Government.

Sheenagh Adams: That is correct.

Nicol Stephen: How do the fees that you charge compare with those in the rest of the UK? You mentioned that fees in other parts of the UK have increased by 30 per cent, and said that the £400 figure for typical transaction costs is going down to £300. What are the comparable fees for an average transaction of a similar scale in other parts of the UK?

Sheenagh Adams: Before the fee review in 2007, traditionally the fees in Scotland were higher than those in other parts of the UK. That reflects the fact that the Scottish land register is at a different stage. We have had a map-based land register with a state guarantee attached to it only since the Land Registration (Scotland) Act 1979 was brought into force, whereas in England and Wales, such a register has been in operation since the 1920s. The fee review in 2007 brought the Scottish fees more into line, but the position varies. We can provide the detail of that if you want it.

We have not looked to see how the fee increase in England was distributed between the different registration fees. I would have to find that information for you.

Nicol Stephen: You suggested that the fees were broadly similar after the fee review in 2007. Our fees in Scotland are remaining static or are perhaps reducing further, whereas the fees in England and Wales have gone up by 30 per cent. That is the figure that you quoted.

Sheenagh Adams: Yes.

Nicol Stephen: On the face of it, there should be a 30 per cent variance.

Sheenagh Adams: Yes, but it will depend on how the fees have been applied. The systems in Scotland and England are different in terms of things such as discharges—

Nicol Stephen: But just on average?

Sheenagh Adams: I will find that information for you if that would be helpful.

Nicol Stephen: Thank you.

Murdo Fraser: Good morning. I should say by way of introduction that I was a property lawyer in a previous life, so I have had more than my fair share of dealings with Registers of Scotland over the years—although they were mostly positive, if that reassures you.

I have some questions about your future operating costs. I was interested to hear what you had to say earlier about the impact of the recession on your workload. In your forward plans and the information that you provided to us, you indicate that you expect operating costs to reach a peak of £75 million by 2010-11, compared with £66 million last year. As part of that, we see staff costs increasing in 2010-11 and 2011-12.

Given what you said about what has happened in the property market, I presume that the volume of transactions today is substantially lower than it was two or three years ago. I therefore wonder why your staff costs are continuing to increase. I would have expected that, although you would not necessarily be making people redundant, there might well be a case for managing costs down by not filling vacancies and through natural wastage. Will you comment on that?

Andy Smith: I will make two points to give some background to the situation. First, the staff costs to which you refer are published information from our corporate plan, which was put together about a year ago. Since then, the Registers of Scotland board has discussed our future corporate plan, and we now have staff costs that show a decline over the five-year period.

Secondly, we have stocks of work that we need to complete, which means that we are not completely at the mercy of the property market. That work tends to be our most complex work, and we intend to reduce the numbers from what we have on the shelf at the moment.

Murdo Fraser: So you are not paying people to sit and do nothing.

Andy Smith: Absolutely not.

Murdo Fraser: Earlier, there was a discussion about trying to predict when the market might recover and what the level of transactions might be in the future. Can you give me a flavour of how you are trying to assess the right level of staff complement and overall operating costs—IT investment, for example—by matching those costs to likely levels of activity and fee income?

Andy Smith: With regard to on-going costs, on the IT front, we are looking for anything that will give us a return in terms of efficiency. We would consider the business case of any project of that type.

With regard to staffing, we consider the work that we have to do at the moment and what the shape and complexity of the work are likely to be in future years and match that against the resources that we have available; we then consider how we can build in efficiencies. Our most complex work is dealt with by our most senior resources, and we hope to make significant savings through efficiency improvements in that area.

Murdo Fraser: When I asked you my first question about the projected operating costs, which, according to the figures that we have, were expected to peak at £75 million by 2010, you indicated that you were looking at those costs again. Is that figure of £75 million still applicable or do you believe that it will be reduced?

Andy Smith: I believe that that figure will be reduced. Once we have completed the corporate planning process for the next five years, we will say exactly where that sits.

Nicol Stephen: Are we being told that we are not operating on the correct figures this morning?

Sheenagh Adams: No. The figures that we have given you are the published figures from our corporate plan. We are currently working on the corporate plan for 2010 to 2015, and the figures for that are emerging. As Mr Smith said, we expect those figures to reduce as a result of the actions that we are taking. For example, in our registration directorate, we are working with around 90 per cent of the staff that we had budgeted for. That means that we expect the staffing costs for 2010-11 to be around £43 million.

The Convener: When will we be able to see your revised figures?

Sheenagh Adams: The corporate plan is due to be published in March, before the new financial year.

The Convener: Apart from the figures that you have mentioned, will there be other significant differences?

Sheenagh Adams: We will be considering IT costs; the move to the international financial reporting standards system will change the figures as well, because of the way in which we will be required to account for some of them. Obviously, we will send you a copy of our corporate plan at that time.

The Convener: Earlier, you spoke about investing in your staff and said that, because of the specialised nature of the work, you were keen to retain them. When it comes to setting salaries for the top staff in your organisation, who determines that? Are you bound by civil service rules or does your board set the levels?

10:45

Sheenagh Adams: The board has no role to play in setting salaries. We are civil servants and our salaries are set by the rules that are made by Scottish ministers. The three of us who are present before you today and the other deputy keeper are all members of the senior civil service, and our salaries are set by the Scottish Government's decisions on senior civil servant salaries. The salaries of the other staff members are agreed with Scottish ministers under the rules that they set.

The Convener: Who decides on the annual performance bonus? Your line manager?

Sheenagh Adams: That is also set within the rules that are agreed with Scottish ministers. We have moved away from performance-related pay in its traditional sense to consider different options for rewarding performance, such as the awarding of smaller, in-year amounts. That is all accounted for in the split between ordinary salaries and performance-related pay that is agreed within the framework that is set by Scottish ministers.

The Convener: In your move away from performance-related pay, you have an annual salary, but you also have an annual bonus—

Sheenagh Adams: There are no annual bonuses. We have moved away from that. This was the last year of that system.

The Convener: Other than the salary, then, there are no additional payments. Is that correct?

Sheenagh Adams: There can be small in-year payments. If a member of staff has produced a particularly good piece of work and, for example, a customer has commented on how well they have performed, they might get a small token of appreciation, such as a voucher or a box of chocolates under our people@RoS strategy or our values and practice scheme. That rewards them instantly instead of giving them a very small bonus at the end of the financial year.

The Convener: I assume that the Morrison's along the road does good business.

Sheenagh Adams: Obviously, we follow proper procurement procedures.

The Convener: Which means you probably end up paying twice the market value for the chocolates.

Under the system that you have described, do the senior members of staff who are not at the counter dealing with the public receive no enhancements to their salary over the year?

Sheenagh Adams: As I said, the pay of those of us who are senior civil servants is worked out on the same basis as that of senior civil servants across the Scottish Government. Obviously, there is an opportunity for performance-related pay. Bonuses have never been a feature of civil service pay, but there has been performance-related pay. That is set by the Scottish Government, and we have no control over that, either as managers or as part of the Registers of Scotland board.

James Kelly: The figures that we have been provided with show that the IT costs range from £13.8 million in 2009-10 to £7.6 million in 2013-14. I am not looking for precise figures, but how does that split between capital and revenue?

John Clark: The costs that you have been given are on the income and expenditure account, so they relate to running costs.

James Kelly: I do not quite understand. How much of the £13.8 million in 2009-10 relates to capital and how much relates to revenue?

John Clark: There is no capital within that. That is purely running costs.

James Kelly: If it is purely running costs, what is it made up of?

John Clark: It is made up of support costs—the costs of having our IT provider support our old system and introduce new systems. It is a service charge as opposed to the capital charge, which comes on to a balance sheet.

James Kelly: Are there any consultancy fees in that?

John Clark: No.

James Kelly: So it is just a one-off £13.8 million.

John Clark: It is a payment to one supplier—BT—for a 10-year contract, which we are halfway through at the moment.

James Kelly: That seems like quite a long time to have a contract. When did the contract start?

John Clark: It started in December 2004. Before then, we dealt with approximately 20 different IT suppliers. We decided, because we were due to refresh our IT systems and completely replace our desktop, that it was a good idea to have one supplier as that would be more efficient. After the due procurement process and so on, we employed the services of BT.

James Kelly: I take it that there was a tendering process in 2004.

John Clark: Yes.

James Kelly: Without going through all the nuts and bolts of it, what were the main points in the tendering process? How did you establish that BT was giving you the best deal?

Andy Smith: A specification was drawn up covering what we required to be delivered and that was put out to tender. We then assessed which provider would offer the best value for money.

James Kelly: On what basis did you decide that it would be best to have a 10-year contract?

Andy Smith: I cannot recollect the exact reason for that. I can only surmise that it was to give stability, because there was a programme of work to be completed and we wanted to have certainty and stability so that we could build up a relationship with the supplier.

Sheenagh Adams: I was not in the Registers of Scotland when the contract was let. Our position was different then, but I have been told by colleagues that there was obviously going to be a high level of investment in systems that would take several years to develop—for example because we were only the second country in the world to have an automated registration of title to land system. That is not something that you can buy off the shelf; it has to be developed to suit the Scottish legal system. I think that 10 years was felt to be a sensible period because such a major level of investment was involved and because very new technology was being brought in on the mapping side as well as on the IT platform side.

James Kelly: I have no other questions, convener, but I note that a 10-year contract seems a bit unusual, particularly for IT.

The Convener: I will stick with that issue for a moment. Throughout the UK, IT projects in the public sector have been fraught with problems over the years, with costs escalating beyond control. For an organisation of your size, £13.8 million per year seems a very large sum of money for your IT needs. I presume that you have your own staff working on computers in the building.

Sheenagh Adams: We do not have our own staff working on the systems although staff obviously use the desktop. We have a small IT department whose role is to be the intelligent client by helping to specify our systems and manage the contract with BT. We are a major user of IT in the Scottish public sector. In respect of mapping, we are the major map user and we hold well over a million titles on the register. We deal with more than 500,000 registration applications each year and several million information requests, so we are very big users of IT.

The Convener: Okay.

Nicol Stephen: I am trying to understand the figures that we have before us today from your corporate plan and those for your overall income and operating costs. Am I right to say that your operating expenses in 2008-09 were around £66 million?

John Clark: That is correct.

Nicol Stephen: Am I also right to say that, according to your corporate plan, your operating expenses this year have gone up to more than £74 million?

John Clark: That is right.

Nicol Stephen: So there is a double-digit increase in your expenses when your income has come down substantially. Can you explain that?

John Clark: As I have said, those planned figures—they are forecast figures—were drawn up a year ago and things have changed over the year. For example, we update—

Nicol Stephen: Sorry—you are saying that they were drawn up a year ago, but the document was published in March.

John Clark: The figures were compiled last December.

Nicol Stephen: But published in March.

John Clark: Yes.

Nicol Stephen: Okay. You compile the figures in December each year, so you will be able to give us the figures for this year imminently.

John Clark: In draft, yes.

Nicol Stephen: That is very helpful. However, the economic crisis was very much upon us last December, so I would be interested to hear your explanation of the double-digit increase in your costs.

John Clark: The biggest of the planned figures for 2009-10, which was staff costs, was £45 million.

Nicol Stephen: You planned an increase from £66 million to £74 million.

John Clark: Yes, and the largest figure was staff costs. As has been said, we are running a complement of below the planned number of full-time equivalents.

Nicol Stephen: Why did you plan that?

Sheenagh Adams: It was based on our estimate of how the property market was going to perform and the level of intakes that we expected at that time.

Nicol Stephen: Let us be clear. In December last year, you expected a significant increase in staff costs based on your view of the property market. Is that what you have just told me?

Sheenagh Adams: No, I do not think that that is what I have just told you. A lot of the work that we are doing is work that we already have in the building. We have quite a lot of first registrations and transfers of part that we do not deal with on the day they come in because they take quite a long time to progress. For example, we cannot do a lot of the work on transfers of part until the Ordnance Survey has gone out and mapped the area. There is a time lag. So, we have a considerable amount of work that staff are working on and we have a target of moving towards a position where we have no casework that is older than six months. The staff who are working on that are fully employed.

When we have had vacancies, we filled them only when we absolutely had to, and recruited only when we absolutely had to. We therefore expect the outturn figures for 2009-10 to be different from what was planned last December.

Nicol Stephen: What do you expect them to be?

Sheenagh Adams: We expected the staffing expenditure figure, for example, to be around £45 million, but the outturn this year is now expected to be around £42 million as a result of the actions that we have taken to control staff numbers and not to expand in areas where we thought that we might have to expand.

Nicol Stephen: Do you have an overall outturn figure that we could compare to the estimate that was published in March? The published figure in your corporate plan was £74,226,000. Can you give us a current estimated figure?

John Clark: Yes. As I said, we update the in-year figures quarterly. The latest quarter covers the six months to the end of September, and we estimated our overall operating costs to be £72 million, not £74 million.

Nicol Stephen: So, instead of a 12 per cent increase, there has been a 10 per cent increase in operating costs over the past year. Is that correct?

John Clark: Yes.

Nicol Stephen: And you believe that to be justified in the current economic climate, given the level of activity in your organisation.

John Clark: Not all our costs are completely variable—a lot of them are fixed and we cannot do anything about them. I agree with what you are saying. In an ideal world—

Nicol Stephen: The costs last year were £66 million and you expect that, this year, they will be something over £72 million—is that correct?

John Clark: There has been a large increase in our IT costs, but the figure that you have been given of £13.8 million will turn out at just below £13 million.

Nicol Stephen: I am just trying to understand the figures. You expected an overall cost figure of £75,359,000 for 2010-11. Can you tell us your current estimate of that figure, in December 2009?

John Clark: It is £69 million.

Nicol Stephen: Okay. Thanks very much.

The Convener: I thank our witnesses for their contributions this morning. It is a long way from welfare rights in Glasgow to keeper of the Registers of Scotland, Sheenagh.

Sheenagh Adams: And to convener of the Public Audit Committee.

The Convener: Yes. It was nice to see you again. Thank you very much.

While our witnesses are leaving the table, I welcome members of the Northern Ireland Assembly Public Accounts Committee who are in the public gallery. I hope that they are finding the meeting interesting. We look forward to having a discussion with them afterwards.

Section 23 Report

"Overview of the NHS in Scotland's performance 2008/09"

11:00

The Convener: We move on to consider Audit Scotland's report, "Overview of the NHS in Scotland's performance 2008/09". Members are aware that there has been significant press comment on the report, which is penetrating and identifies major issues for the future of the national health service in Scotland, although it is based on 2008-09. I invite the Auditor General for Scotland to brief the committee on the report.

Mr Robert Black (Auditor General for Scotland): As the committee knows, each year I bring an overview report of the NHS to the Parliament and to this committee in particular. Each year the report covers financial performance and every second year it takes a wider look at the performance of the health service as a whole. This is one of the years in which we produce a comprehensive report, which considers finances and performance. The report follows up some of the themes that I raised in our recent report, "Scotland's public finances: preparing for the future". The media coverage that the convener referred to also takes up some of those themes.

Part 1 of this report considers the implications for the NHS in Scotland of the current economic climate. Part 2 considers how the NHS might operate in a tighter financial climate. In part 3, I summarise the overall performance of the health service in Scotland.

I will begin with part 1. Our recent report to the Parliament on Scotland's public finances confirmed that the public sector in Scotland will soon come under the greatest financial pressure since devolution. During the past eight years, the NHS in Scotland has experienced a growth in funding of 38 per cent—that is in real terms, excluding inflation—but the years of plenty are drawing to a close. The growth in funding of the NHS during the past few years has allowed an expansion of the workforce and significant improvements to the infrastructure. For example, capital expenditure rose from £132 million in 2003-04 to more than £500 million in 2008-09. The growth has also enabled the NHS to cope with significant cost pressures, as is well known to the committee and as I have said in previous reports.

In 2008-09 the auditors reported again that cost pressures would arise from the cost of prescription drugs, pay modernisation, the European working time directive, the cost of energy and utilities generally and the cost of upgrading the NHS estate. About a third of the estate requires major upgrading within the next three years. It is likely that the cost pressures that I have set out—or most of them—will continue into the future, and the more challenging economic climate will mean that the health boards will find it more difficult to absorb the increases in costs that probably lie ahead. Pay costs, as I am sure that the committee is well aware, have increased due to recent pay agreements, and there has been growth in staff numbers. The rising pay bill in recent years has absorbed much of the funding increases.

I am delighted to report again that life expectancy continues to rise and will do so during the next 25 years. We have a growing number of older people in Scotland, which will place extra demands on health and other services. On page 7, in exhibit 3, we show the rising number of emergency readmissions of patients aged 65 or more, which is a real pressure on the acute sector.

The current economic climate has already affected the planned income for some health service bodies. In particular, some capital programmes are partly reliant on asset sales, which might not have materialised in the way that was expected. We give an example from Forth Valley NHS Board in the report.

I turn to part 2, on the challenges for the NHS of operating in the tighter financial climate. For the most part, the health service has managed to achieve the necessary level of savings to ensure financial stability in the past few years. However, health boards forecast that they will need to make more than £175 million in recurring savings and £25 million in non-recurring savings to deliver the efficiencies that are expected for 2009-10. That presents a significant challenge for boards and, as members will be aware, there has been some press coverage of that in the past few days.

In the report, I highlight the point that it will be difficult for health boards to make significantly more efficiency savings unless they target some of the larger areas of committed expenditure, such as pay costs. On page 13, in exhibit 7, we summarise the significance of pay costs, which account for about two thirds of running costs in the hospital sector and 70 per cent of costs in the community sector. Clearly, there will be a need for at least some flexibility in how staffing resources are used.

A better understanding of productivity in the NHS is urgently needed. That has been a theme of my reports in the past and is even more so this year. I would be the first to acknowledge that measuring productivity in the NHS is complicated. The measure must somehow consider not only activity and costs, but quality. All three of those are important. We have tried to summarise what is involved in exhibit 8 on page 14.

Last year, the Office for National Statistics produced a report at the UK level. That report indicated that, on the basis of the measures that the ONS was able to use—that is an important qualification—productivity in the health service fell by 10 per cent between 1995 and 2006. That is because health care output measures, such as occupied bed days or the numbers of patients treated, grew over that period but the input costs, such as staffing and infrastructure costs, rose even more rapidly. Therefore, the arithmetic means that productivity is reported as falling, but the assessment does not necessarily include adequate measures of quality. There was a Government review of how NHS output and productivity at the UK level were measured. The Atkinson review made some suggestions about how ill-health output measurement could be developed, and we have tried to capture some of that complex report round about paragraph 40 on page 13 in our report. In essence, the Atkinson review said that we need to measure more things, measure them differently and try to find ways of measuring the less tangible outputs, such as the effectiveness of public health campaigns and the improvements in quality as a result of improved techniques and technology, which mean that the number of interventions may reduce, but the quality of the outcomes is better. None of this is easy, and I am well aware that we tend to report only what can be measured, such as the number of in-patients or the number of out-patient episodes. However, without good information on whether quality is improving, the NHS will always be forced to present an imperfect picture of its productivity and performance.

In reflection of Government policy, not only of the Scottish Government but going back to the previous Scottish Executive, one of the themes of a previous report was the policy of providing more care in community settings as locally as possible. However, I am afraid that, as we show in exhibit 9 on page 15, there is still no evidence of any significant transfer of resources from secondary care into primary care, with the split remaining—pretty stubbornly, I have to say—at about 60 per cent being spent on hospital services; 27 per cent on general practice and family health services; and 13 per cent on community services.

A significant part of that problem is the pressures on hospital services but, as I described, the measures of activity are not comprehensive. In paragraphs 46 through 48 on page 15, we try to tell the story of some of the things that are going on in the acute sector, based on the information that we have. For example, in recent years, the number of planned in-patient admissions has continued to reduce but the number of emergency patients continues to rise; day surgery levels are increasing, which is good news, but the number of out-patients being treated has been falling. That may be the result of changes in the way that health care is being delivered, with more patients being treated in community or general practitioners' surgeries but, to be frank, we do not have the information to know whether that is happening.

The demand for emergency care services continues to increase each year throughout Scotland. That does not fit terribly well with trying to develop services in the community that prevent people from being admitted to hospital. There has been a 6 per cent increase in attendances at all types of accident and emergency services since 2004-05. It is estimated that up to almost a quarter of patients attending A and E are admitted to hospital as an emergency; that, of course, can disrupt the planned activity in hospitals and contribute to the problems of productivity measurement and the need to keep spending money in the acute sector, and the difficulty of getting it out into community settings.

In part 3 of the report there is a look at the overall performance of the health service in 2008-09. I am pleased to report that all health boards met their three financial targets in that year and that most of those bodies have reduced their reliance on non-recurring funding. The three island health boards relied most significantly on non-recurring funding to break even. As I am sure that the committee is aware, NHS Western Isles received brokerage funding from the Scottish Government to eliminate its cumulative deficit. Auditors will continue to monitor the financial health of the boards. Exhibit 12 on page 20 of the report outlines the actual surpluses and deficits in 2008-09 for each health board and the forecast for 2009-10, as they appeared at the time that our report was being made.

I am pleased to say that there is quite a lot of good news to report on key health indicators and the NHS's achievement of its national performance targets. Rates for the three biggest causes of premature deaths—cancer, coronary heart disease and stroke—are declining, as members will see from exhibit 16 on page 23. Suicide rates, which we know have been an intractable problem for a number of years, have been falling and increased testing and early diagnosis mean that the number of AIDS-related deaths is decreasing. However, some indicators continue to show negative trends. Scotland continues to have high levels of drug and alcohol misuse, on which we reported not that long ago to this committee, compared with the rest of the UK, and teenage pregnancy rates continue to remain high, particularly in certain areas of Scotland.

The NHS met 10 out of the 13 national performance targets that were due for delivery in 2008-09. Two targets were not met, and the most significant of those relates to reducing sickness absence rates to 4 per cent, although they were getting down towards that and significantly improving.

The target for reducing the number of older people readmitted to hospital as an emergency in one year was dropped in November 2008. I am not sure of the reasons for that. Certainly, as I described earlier in relation to the exhibit on page 7, the trend for readmissions has been consistently rising. There is a real risk that that activity is crowding out planned admissions and putting at risk the health service's overall performance and productivity. That important target has been replaced by a new target that focuses on emergency bed days rather than emergency readmissions. Appendix 3 on page 30 of the report is a summary of how the NHS performed against its national targets. I will say no more about that at the moment.

As ever, convener, my colleagues and I are happy to answer any questions that you might have.

The Convener: Thank you. Paragraph 28 says that the Scottish Government health department will "recalculate" the NHS Scotland resource allocation committee target shares

"every year to take into account movements such as changes in population in board areas."

Will the target shares be reallocated simply on the basis of changes in population, or are issues such as poverty and morbidity also taken into account?

11:15

Mr Black: Population is the main driver. For 2009-10, the new formula from the NHS Scotland resource allocation committee, which we shorten to NRAC, replaced the Arbuthnott formula. The latter was population based, but it gave extra weight to factors such as age and sex profiles, morbidity and the life circumstances of a population, which was essentially about deprivation and the additional costs of providing services in rural and remote areas. The Arbuthnott formula was intended to give greater resources to areas of greatest need. It has been around since about 2000 and has been used to distribute funding to the health boards for hospital and community services and GP prescribing, which accounts for about 70 per cent of the total budget. The NRAC formula seeks to improve and refine the Arbuthnott formula to take into account new sources of information on, in particular, deprivation and new developments in care provision, because the Arbuthnott formula is a bit dated. Under NRAC the target share of funding that each board should get is recalculated annually to take account of changes in demographics and other factors. As we indicate in the report, it is clear that some boards stand to gain significantly under the new formula, but the Government has made a commitment that no boards will receive funding cuts. As we say, given the tighter financial circumstances that lie ahead for the health service it is rather difficult to see how the health directorates will be able to help boards move closer towards their target shares without extra resources being devoted to doing so, given the commitment that no boards should lose out in absolute terms.

The Convener: I note your comments that no board will lose out in absolute terms, that there will be no cuts and that the new formula will be phased in but, looking at the differences that it makes, the new formula hardly makes sense. Deprivation is still a real problem in Scotland. Although the new formula seeks to refine and improve a formula that tries to reflect some of the significant problems associated with deprivation, Ayrshire and Arran, where many communities are still afflicted with such problems, stands to be a major loser. Greater Glasgow and Clyde, which includes the areas worst affected by poverty and deprivation in the whole of Scotland, stands to be the biggest loser. How are those boards to continue to cope with the problems of alcohol and drug abuse and the long-term problems of ill-health in many of those deprived communities when the resources are shifting elsewhere?

Mr Black: That is a very important question and it addresses one of the areas where the analysis that we present raises questions that are difficult for us to answer. It might be more appropriate for you to seek answers from the health service.

The Convener: Okay.

Bill Kidd: Thanks very much for the report. In paragraph 25 you say that

"Equal pay remains a potential liability that the NHS is unable to quantify."

It also mentions that, as of

"March 2009, NHS bodies had received in excess of 12,000 claims"

on equal pay. I do not know until when equal pay claims can run and whether there is an end date for when people may claim. If there is, does the fact that there have been 12,000 claims up to 31 March 2009 not make it possible to quantify the potential liability for the NHS?

Mr Black: As we say in the report, the NHS Scotland central legal office has told us that it is not possible to calculate the potential liability. The issue has been around for a number of years and the NHS is not very willing to put a figure on claims that it believes are increasingly unlikely to materialise. Only a handful of trusts have settled claims in England. Recent test cases in England have proved that agenda for change is not discriminatory in the eyes of the law, so we are given to believe that that means that only cases before 2004 require to be considered, and that for those cases it will be quite a challenge for claimants to find valid jobs that can be compared with their own to show that gender discrimination took place, because we are talking about some years ago. Understandably, I guess, the NHS is not willing to state categorically that there is no liability for NHS bodies, so there is still an element of uncertainty around the issue.

Bill Kidd: I reckon that the NHS is being disingenuous in saying that it cannot find comparable jobs, because the jobs that existed before 2004 are pretty much the same as those that exist now. However, that is not for you to comment on.

Mr Black: No.

Bill Kidd: Where did the funding come from for the few NHS trusts in England that settled claims? Did it come from within the trusts or from some Government body?

Mr Black: Given that that question relates to the English health service, I doubt that we have the information. The team has some general knowledge, but I am afraid that we cannot help you on that.

Bill Kidd: Thank you anyway.

Murdo Fraser: I thank the Auditor General and his staff for another excellent report that contains some extremely stark messages for us. It follows on from, and points in the same direction as, the recent report on the overall pressures on the Scottish Government's budget. We see continuing cost pressures in the NHS at a time of severely tightening public finances.

I have several questions, the first of which relates to efficiency savings, which you mentioned, and, in particular, the impact on staff costs. You referred to exhibit 7 on page 13 of the report, which shows the high percentage of the total NHS budget that staff costs account for. I am sure that you will have noted the recent comment by a senior health professional, who said that it was incumbent on high earners in the health service to take a pay cut to reflect the cost pressures and perhaps support those staff on lower earnings. I would not necessarily expect you to comment on that as a way forward, but is it your view that something of that nature will be required? Given the budgetary pressures that face the NHS, will overall staff costs have to be looked at?

Mr Black: I am afraid that my answer is rather obvious—it is the Scottish Government that sets the salary bandings for everyone in the NHS and, in doing so, it takes advice from the Senior Salaries Review Board. It is well outwith my remit to comment on what salaries are appropriate for senior managers in the NHS in Scotland.

Murdo Fraser: I will press you further. Given what you said about the percentage that staff costs make up of the total budget, if there are pressures, they will impact on the overall staff budget.

Mr Black: Yes. It might be helpful if I were to widen my response. Given the very high percentage of running costs that staff costs account for in both the hospital sector and the community sector, the containment of staff costs across the NHS as a whole is an issue. Just as important is the need to find flexible ways of making best use of the resource, and quite a lot of thinking is being done about that in the health service. Some policy decisions will have to be taken on whether the NHS can be empowered to use its staff in different ways in the future.

Murdo Fraser: Thank you—that was helpful.

I have a question about part 3 of the report and, in particular, the section of it, from paragraph 83 onwards, that looks at the key indicators on health improvements, particularly life expectancy and the reduction in death rates. You mentioned the fact that we have an older population because people are living longer. That is a good thing in itself, but what are the cost implications? When the NHS was first set up, the expectation was that we would have to spend a lot of money for a short period, after which we would have a healthier population and the cost pressures would reduce. Of course, that is not what happened. People lived longer but developed other conditions. Will the progress that is being made on producing a healthier population cost us more or less money in the long term?

Mr Black: Exactly so. There is a fundamental issue in the demographics. Life expectancy is increasing, but the number of years of healthy life that people can expect is not increasing at anything like the same rate. As you rightly say, the consequence of that is that the pressures on the health service are growing. We can see that in a number of different ways. One example, which we include in the report, is readmissions of over-65s to hospital, in relation to which the trend is remorselessly upwards. That is just one example of the sort of pressures that there will be on the health service.

Of course, that brings us to the fundamental importance of trying to deliver as much preventive and anticipatory care in the community as possible, to avoid the need for elderly people to be admitted to hospital. We are locked into a position in which elderly people are presenting in the acute sector, which means that money must be provided to the acute sector and resources cannot be transferred into community settings. Perhaps the team can provide more information on the general topic.

Barbara Hurst (Audit Scotland): New research, which was published about the day after we sent the report to print—that was annoying—has showed that it is highly likely that our grandchildren will have lower life expectancy than we do. We have almost reached a tipping point, which I think is due to issues to do with obesity and deprivation. It will be interesting—in the sense of the Chinese proverb—to see what happens during the next few years if those findings are correct. We have a lot of older people in the population, and research shows that in our last few years of life we make greater use of health services. However, a lot of younger people with chronic conditions that are due to lifestyle will also come through the system. The health service has a difficult job, because it needs to invest in preventive work while having to pick up the acute and chronic conditions that come through.

Murdo Fraser: That was helpful.

Willie Coffey: The Auditor General and his team have produced a useful report. The report contains many positive messages, most notable of which is the continuing reduction in death rates from cancer, strokes, heart disease and so on, in men and women.

However, there are clear warning signs for the future. The rates of hospital discharges that are related to alcohol abuse have increased rapidly, particularly among youngsters. The report noted that during the past five years there has been a 36 per cent increase in alcohol-related discharge rates in the 20-to-24 age group. The research to which Barbara Hurst referred increases concern about such issues. Does the Auditor General get the impression that, overall, health boards are preparing well enough for the future that we face, given the budgetary conditions that we anticipate during the next few years?

Mr Black: The committee will recall that some months ago we produced a major impact report, "Drug and alcohol services in Scotland", which presented a comprehensive picture of what is going on throughout Scotland. It might be difficult for us to have perfect recall of all the report's key messages, but perhaps the team can remind us of the high-level messages.

Barbara Hurst: Since we published that report there has been a lot of work on and commitment of funding nationally to the area. We know that almost all the community planning partnerships, perhaps with only one or two exceptions, include in their single outcome agreements the need to tackle alcohol abuse. It is clear that alcohol abuse is not just a health service problem, so it is encouraging that councils and the health service are starting to consider the issue.

When the committee heard evidence on mental health services not long ago, witnesses highlighted serious problems to do with alcohol-related brain damage and told the committee that there had not been enough investment in the area. For different areas of the health service there will be intractable problems.

11:30

Willie Coffey: I recall a previous report that showed us clearly that the rate of deaths in Scotland due to conditions such as cirrhosis of the liver in the 1980s was half the European rate, but it is now double. That and Barbara Hurst's previous comments point to a real need to get a grip on some of those issues in the future. I am concerned about that, but also pleased to hear from Audit Scotland that the health boards are trying to make some provision for such a future and are planning for it. Scotland cannot, over a long number of years, sustain the current level of support with the cost and pressures that it places on the health service.

Nicol Stephen: I add to the positive comments about the report. Exhibit 15 on page 22 focuses on the percentage of babies that are exclusively breastfed at six to eight weeks. I am sure that everyone knows that those figures are hugely disappointing compared with those for some other nations—for example, in Scandinavia, the rates are significantly higher. In some parts of Scotland, well below 20 per cent of children are breastfed at six to eight weeks. Can we get any more information on the trend in the different health board areas? We are told in paragraph 78 that the breastfeeding target

"is not due to be met nationally until 2010/11",

but are we heading in the right direction? On the lack of figures for NHS Grampian, NHS Orkney and NHS Shetland, the note to exhibit 15 states:

"Grampian and Orkney ... do not participate in the Child Health Systems Programme Pre-School".

That surprises me. Are there no figures for NHS Grampian?

Nick Hex (Audit Scotland): I am afraid that we do not have a figure for the trend on the breastfeeding health improvement, efficiency, access and treatment target because it was set only during 2008-09 to be met in 2010-11. We will monitor how breastfeeding rates are improving nationally and keep an eye on what is happening at individual board level.

You asked about boards that do not participate in the child health systems programme. We noted that point from the data provided by the Information Services Department Scotland, which is part of NHS National Services Scotland and produces the information on health issues. All we know is that NHS Orkney and NHS Grampian do not participate; NHS Shetland has only recently started participating, so it should be able to produce some figures next year.

Nicol Stephen: It is also worth while reading paragraph 80, which says that HEAT targets were introduced only in 2006-07. It also states:

"Of the 30 targets used to measure performance in 2008/09, only 14 were also used in 2006/07, when"

the targets were introduced. That figure—only 14 out of 30—brings us back to a theme that we have discussed in the committee before. The NHS has huge volumes of statistics and information but the key targets to scrutinise are changed dramatically every year. That does not suggest a good system.

Nick Hex: I will pick up on my previous answer. I have just been looking at the NHS chief executive's report, which was produced about a week before ours. It contains a trend figure for the breastfeeding target:

"In the year ending December 2008, 26.4 per cent of all babies receiving a 6-8 week review were exclusively breastfed, a marginal increase on the 26.2 per cent reported in the year ending March 2007."

There has been a marginal increase.

Nicol Stephen: Paragraph 80 also says:

"For 2009/10, ten of the targets used to measure the performance of the NHS in 2008/09"—

so that is 10 out of 30—

"have been changed and two targets ... have been dropped."

That is a real concern for public audit of our non-financial responsibilities. How can we scrutinise an organisation effectively over time with that degree of churn and instability? It is a questionable approach.

The Convener: As there are no other questions, I thank the Auditor General and his staff for their contribution. In the next section of the meeting, we will reflect on how we wish to deal with the report. I close the public part of the meeting and move the committee into private.

11:35

Meeting continued in private until 12:05.

Members who would like a printed copy of the *Official Report* to be forwarded to them should give notice at the Document Supply Centre.

Members who wish to suggest corrections for the archive edition should mark them clearly in the report and send it to the Official Report, Scottish Parliament, Edinburgh EH99 1SP.

The deadline for corrections to this edition is:

Monday 28 December 2009

PRICES AND SUBSCRIPTION RATES

OFFICIAL REPORT daily editions

Single copies: £5.00
Meetings of the Parliament annual subscriptions: £350.00

WRITTEN ANSWERS TO PARLIAMENTARY QUESTIONS weekly compilation

Single copies: £3.75
Annual subscriptions: £150.00

Published in Edinburgh by RR Donnelley and available from:

Blackwell's Bookshop

53 South Bridge
Edinburgh EH1 1YS
0131 622 8222

Blackwell's Bookshops:
243-244 High Holborn
London WC1 7DZ
Tel 020 7831 9501

All trade orders for Scottish Parliament documents should be placed through Blackwell's Edinburgh.

And through other good booksellers

Blackwell's Scottish Parliament Documentation Helpline may be able to assist with additional information on publications of or about the Scottish Parliament, their availability and cost:

Telephone orders and inquiries
0131 622 8283 or
0131 622 8258

Fax orders
0131 557 8149

E-mail orders, Subscriptions and standing orders
business.edinburgh@blackwell.co.uk

Scottish Parliament

All documents are available on the Scottish Parliament website at:

www.scottish.parliament.co.uk

For more information on the Parliament, or if you have an inquiry about information in languages other than English or in alternative formats (for example, Braille; large print or audio), please contact:

Public Information Service
The Scottish Parliament
Edinburgh EH99 1SP

Telephone: 0131 348 5000
Fòn: 0131 348 5395 (Gàidhlig)
Textphone users may contact us on **0800 092 7100**
We also welcome calls using the RNID Typetalk service.
Fax: 0131 348 5601
E-mail: sp.info@scottish.parliament.uk

We welcome written correspondence in any language.