



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 23 June 2010

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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	1785
SECTION 23 REPORTS	1786
"Overview of the NHS in Scotland's performance 2008/09"	1786
"The Gathering 2009"	1814
AUDIT SCOTLAND (ANNUAL REPORT).....	1831
SECTION 23 REPORT	1836
"Using locum doctors in hospitals"	1836

PUBLIC AUDIT COMMITTEE
12th Meeting 2010, 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)
Graeme Greenhill (Audit Scotland)
Barbara Hurst (Audit Scotland)

THE FOLLOWING GAVE EVIDENCE:

Dr Harry Burns (Scottish Government Chief Medical Officer and Public Health Directorate)
John Connaghan (Scottish Government Health Delivery Directorate)
Dr Kevin Woods (Scottish Government Director General Health and NHS Scotland)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 5

Scottish Parliament

Public Audit Committee

Wednesday 23 June 2010

[The Convener *opened the meeting at 10:06*]

Decision on Taking Business in Private

The Convener (Hugh Henry): This is the 12th meeting in 2010 of the Public Audit Committee. I remind everyone, including members of the public, to switch off all electronic devices so that there is no interference with the electronic recording equipment. Do we agree to take items 6, 7 and 8 in private?

Members *indicated agreement.*

Section 23 Reports

“Overview of the NHS in Scotland’s performance 2008/09”

10:07

The Convener: Agenda item 2 is a section 23 report: “Overview of the NHS in Scotland’s performance 2008/09”. I welcome our witnesses, Dr Kevin Woods, from NHS Scotland; Dr Harry Burns, the chief medical officer; John Connaghan; and John Matheson. Do you want to make any introductory remarks, Dr Woods?

Dr Kevin Woods (Scottish Government Director General Health and NHS Scotland): Very briefly, if I may. Good morning, everyone. We welcome the opportunity to give evidence this morning on the overview report. The report highlights significant achievements by NHS Scotland up to the end of 2008-09. In particular, I draw the committee’s attention to the performance of the national health service against the challenging performance targets that were set and the fact that, in that year, we achieved an excellent financial outcome, having secured a position very close to recurring financial balance.

It is 15 months since the end of the period that is covered by the report and much has happened since then. Subject to the audit of 2009-10, I can report that the health service continues to achieve good performance against key targets and I can highlight particular improvements in, for example, health care associated infections and waiting times. As the committee knows, we recently launched our quality strategy to build on “Better Health, Better Care”. I am pleased to advise that financial balance is also being maintained.

The committee has taken a specific interest in the adverse effects of alcohol misuse, in trends in mortality and in their relationship with social deprivation. In recent times, our understanding of the links between those has increased. The committee might, therefore, find it helpful if the chief medical officer joins me and my colleagues in exploring those issues this morning, if you wish.

The Convener: Thank you very much for that. We are pleased to have Dr Burns with us.

I will start with a couple of general questions. You spoke about the national health service being well on course to meet its targets and its continuing improvements in quality, and you mentioned improvements in HAI and waiting times. Will you be able to continue to improve quality in that way with significantly fewer doctors and nurses?

Dr Woods: Yes, we believe that we can do that. We are committed to continuing our quality improvements, and we see our pursuit of quality as being linked to our policy on improving efficiency. We have invested considerable amounts of money in equipping the health service with the tools to do that, and we believe that we can continue to make progress on all our performance targets.

The Convener: Information about the number of doctors and nurses that you require to deliver continual improvement in the health service is coming out in a piecemeal fashion. Why is that? If there is a planned quality improvement strategy, why have the boards reported on staffing levels in the way that they have done over the past few months? Why was it not spelled out clearly that they do not need as many doctors and nurses?

Dr Woods: The information was, of course, ultimately published on 3 June in a collective picture of workforce projections. Every year, boards have been required to produce workforce plans in their more general work on the preparation of local delivery plans. That is intended to demonstrate to us how they will achieve the targets that have been set. We in central Government have always taken an interest in those plans.

Obviously, as the financial position has tightened, we have wanted to ensure that boards are focusing on the importance of key front-line clinical services, that the quality of services will be protected, and that the analysis of workforce and efficiency savings is being properly considered in our local partnership arrangements to draw together the management and staff-side representatives. Information became available as that process unfolded locally in an open way. We thought that it was important to pull together all that information, and the Cabinet Secretary for Health and Wellbeing decided to publish the workforce projections on 3 June.

The Convener: Are the doctors and nurses who have expressed concern that reductions in staffing levels will potentially lead to poorer-quality services just plain wrong?

Dr Woods: We are all concerned to ensure that we maintain the quality of services. An important dimension of our approach has been the commitment to establish a monitoring group. That proposal builds on the strength of partnership working, which is an important feature of our health service governance arrangements. Members of the committee will know what those arrangements are at the local level; we have similar partnership arrangements at the national level. I am a co-chair of the Scottish partnership forum, which brings together employers, the Government and trade unions. We wanted to

ensure that we had arrangements in place through which concerns, if they existed, could be aired and considered, and that those discussions would inform the development of local plans. We understand that, in a time of change, there will potentially be concerns about service change, but we believe that we have well-established machinery in place to enable people to contribute to local discussions and to contribute at the national level, too.

10:15

The Convener: Finally, on the same issue of staffing levels, what are you doing to curb the significant growth in the number of highly paid staff who work in the NHS across Scotland? In addition, what do you intend to do to pull back and curb the very significant salaries that have been paid, under successive Administrations, to those at the top of the NHS in Scotland?

Dr Woods: I am sure that you have looked at the detail in the workforce projections, where it can be seen that the group with the largest reduction, at 7.5 per cent, in whole-time equivalent posts over 2010-11 is indeed management. Further, management pay in Scotland, out of the total NHS pay bill of £6.1 billion, is about £100 million, and that pay is subject to ministerial direction. That arrangement was put in place eight or nine years ago, and management is the only group of staff in the NHS whose pay is directly under the control of ministers. For other groups in the NHS, there has traditionally been a very important role for independent pay review bodies informing ministers.

The management group is therefore subject to very close scrutiny by ministers. Over the years, we have put in place some other very important procedures on pay. First, staff in the management group do not receive any progression in their salary without a thorough assessment of performance. Most other groups in the NHS receive an annual increment in pay as well as the traditional cost-of-living increase. However, that does not apply to managers, unless they can achieve the performance objectives that have been set for them. Those determinations are the responsibility of remuneration committees on the one hand, but we established at national level something that we call the national performance management committee, which is independently chaired and which moderates the considerations of the remuneration committees to ensure that proper and thorough governance is in place for the staff groups. Beyond that, decisions about management pay are, indeed, a matter for ministers, within the context of public sector pay policy.

The Convener: But when people receive salaries approaching £100,000 a year, and indeed beyond that, they do not need annual increments, do they? Will you recommend to ministers that something should be done to pull back both the number of such posts and the level of the salaries that are currently paid?

Dr Woods: I think that the Government has made it very plain that there will be a pay freeze for senior salaries. You will appreciate that that is the context in which ministers will have to make decisions about what the levels should be.

The Convener: Will you recommend to ministers that something should be done about the salaries that are paid to senior NHS staff in Scotland?

Dr Woods: Earlier in the review, the Government referred some of the issues around senior staff salaries to the Senior Salaries Review Body. Clearly, as we gather together all the information on this, ministers will be provided with advice. I fully accept that there is a need for pay restraint generally; I think that that is a well-established public policy in Scotland. Recommendations that may go to ministers will be framed in that context. Beyond that I am not really able to elaborate at this stage.

The Convener: Okay, thank you.

Anne McLaughlin (Glasgow) (SNP): Good morning. At our previous evidence session, I and my colleagues around the table were able to congratulate the chief executives of different health boards on some fairly significant achievements. In the report, for example, the numbers of deaths from cancer, heart disease, stroke, AIDS and suicide are down, waiting times are down and hidden waiting lists are gone. I am happy to do that again, regardless of what you are paid. I put on record my opinion that the report shows that you have done an excellent job recently.

We also congratulated the chief executives on their achieving the efficiency savings, and it is efficiency savings to which I now turn. Does the Government have a method for enabling health boards to share good practice? It is not purely about the NHS. Right across the board, we are continually hearing about good local practice that people in other parts of Scotland are not aware of. Is there anything in place to enable good practice that achieves better efficiency savings to be made without affecting the quality of service to be shared among the health boards?

Dr Woods: Thank you very much for your comments on the performance of the NHS. The report reflects well on the efforts of health service staff the length and breadth of Scotland, and I

agree that they are to be congratulated on what they have achieved.

We have a good record on efficient government savings and have exceeded the targets that were set. About two years ago—possibly a little bit longer—in view of the fact that the resource position was tightening and because the efficiency challenge was growing, we established our national efficiency and productivity programme. That was an attempt to provide a framework in which we could examine all aspects of efficiency and productivity, bring together best practice and promote well-established ideas to different parts of the service. We appointed a colleague from a health board to lead that, supported by Mr Connaghan's team. That efficiency and productivity programme has served a useful purpose in helping us to understand where there are opportunities for increased efficiency and productivity consistent with the securing of continued improvements in quality. I am happy to let Mr Connaghan elaborate on some of the detail, if that would be helpful.

John Connaghan (Scottish Government Health Delivery Directorate): In June, we published a progress report on the NHS Scotland efficiency and productivity programme, which contains a number of examples of good practice relating to the improvement of the patient experience, well-organised boards and the reduction of ward supply costs. Those are exemplars for the whole service. On top of that, a central improvement support team exists to spread best practice across all NHS boards. On that group's website, you will find all the examples of good practice that we can muster in Scotland, which are available to all NHS boards.

Anne McLaughlin: There is concern about whether the NHS will be able to sustain the 2 per cent efficiency savings without services being affected. Are you confident that they can be sustained? Nicola Sturgeon, the Cabinet Secretary for Health and Wellbeing, has guaranteed that quality of service will not be affected by the efficiency savings, and a quality strategy has been published, to which Dr Woods referred in his opening remarks. At the evidence session in March, we were given as an example of service redesign—which is where the chief executives said that most of the savings would come from—the fact that poor practice in operating theatres, late starts and early finishes, and so on had been improved on.

I wrote down some remarks by Robert Calderwood, from NHS Greater Glasgow and Clyde, who said that

“there are still areas of overlap, duplication and historical working practices that need to be examined and

resolved.”—[*Official Report, Public Audit Committee, 24 March 2010; c 1611.*]

Are you confident that you can achieve savings without quality being affected? In addition, can you give other specific examples of service redesign, which was referred to in the previous evidence session, so that we have a better idea of where the money will be saved and an assurance that quality will not be affected?

Dr Woods: I will do my best. I read the *Official Report* of the discussion with the chief executives and thought that it was very interesting. On efficiency savings, they made the important point that there is a limit to which you can take off 2 per cent in slices and that you actually have to look at redesign in a broader sense. Mr Calderwood’s example around operating theatres was a very good one. He gave another good example regarding the rationalisation of laboratories in NHS Greater Glasgow and Clyde. From his evidence, I seem to recall that, as part of the board’s reconfiguration of acute services, it has been able to restructure those services and to secure and maintain the appropriate quality but also release resources.

Other examples that I can recall in which we have done redesign in a number of places include one-stop clinics, which are obviously very desirable from the standpoint of the patient, because they avoid multiple interactions and appointments and all the consequences that go with them. We know that patients value that very strongly.

One of the areas in which we have taken a very close interest and on which we want to do even more work is prescribing practice. We have done a lot on generic substitution, but we are looking at other ways of providing decision support tools to prescribers. We have been running a couple of pilot projects—in NHS Tayside and NHS Highland, I think—to examine that so that cost-effective prescribing is prompted at the point of prescription. The report to which Mr Connaghan referred, which we published a few weeks ago, contains many more examples. It might be helpful to the committee if we were to let it have that report, so that members can see all the content.

The Convener: I appreciate that.

Anne McLaughlin: On the sharing of good practice, you said that there is a practice support team that has a website. Is that team doing anything proactively? I assume that it does not simply rely on health boards taking a look at the website when they feel like it. Is overall co-ordination going on?

John Connaghan: The simple answer is yes. The website is not just passive. We encourage the transmission of best practice through helping

boards with expert advice. Perhaps a good example of that is where we combine two or three programmes. At NHS Highland’s annual review yesterday, we heard about telehealth services in Argyll and Bute, which can combine the best practice from outside NHS Highland and deliver it to remote and rural locations. The example that we heard about yesterday showed a reduction in hospital admissions of some 91 per cent for respiratory patients in Bute and a 41 per cent reduction in general practitioner attendances. Those are all good examples of our helping boards to reach best practice.

The Convener: Dr Woods, may I return to a comment that you made about what the chief executives had said? Do you disagree with their view that the salami-slicing approach is not sustainable?

Dr Woods: Do I disagree with their view that salami slicing is not sustainable?

The Convener: Yes.

Dr Woods: No—we need to do all those things. As we have said, we wish to continue with the 2 per cent savings; we need to consider everything that we do, and to examine ways of improving quality and efficiency. We need to do all that.

10:30

The Convener: I understand that, but the chief executives said that the salami-slicing approach is not sustainable. Are they wrong?

Dr Woods: No, I do not think that they are wrong.

The Convener: So, they are right.

Dr Woods: They are saying the same thing that I am saying, in a sense: that approach has a place, but it is not sufficient.

The Convener: No—the chief executives said that it is not sustainable. They did not say that salami slicing has a place but that it is not sufficient. It is either sustainable or it is not—I am asking you whether the salami-slicing approach is sustainable.

Dr Woods: If the only thing that we did was simply to take off 2 per cent, we would not achieve what we need to. We need to consider how we organise and do things, and that is what has been reflected.

For example, we are aware that lengths of stay in hospitals vary quite a bit. We have done a lot of work on benchmarking lengths of stay. There are productivity opportunities there. It would not be possible to secure such savings simply by salami slicing, as it were.

It is necessary to examine the organisation of in-patient care and the balance between in-patient care and day care, and that must all be worked through. Mr Calderwood said that NHS Greater Glasgow and Clyde had done that on a grand scale in moving to two brand-new ambulatory care hospitals over the past 10 years, and that has released resources for reinvestment.

George Foulkes (Lothians) (Lab): From the examples that Dr Woods has given, I am finding it difficult to work out his understanding of the term “efficiency”. How would you describe “efficiency”, Dr Woods?

Dr Woods: We are trying to secure the same or more outputs while reducing the level of inputs.

George Foulkes: Could a huge amount of savings be produced by having, for instance, just one health board for the whole of Scotland?

Dr Woods: We have not done the calculation for that, but there possibly would be savings. It would be an interesting calculation to do. You will recall that in 2004 we abolished trusts in Scotland and adopted single-system working. Although I cannot recall the figures, there were savings there.

We have also learned that structural change brings with it costs in the short term.

George Foulkes: I go further back than that—you probably do, too, Dr Woods, looking at you. You will remember when trusts did not exist, and we had only health boards. We have had two reorganisations within my lifetime.

Dr Woods: At least.

George Foulkes: Of course it would save a huge amount of money to have just one board. We would not have all the chief executives and all the finance directors, and you would probably not need a chief medical officer and a head of the health service in Scotland. Your own job might become redundant—I think that you are one of the three top-paid people in the Scottish Executive, judging from what I saw the other day. That would be a huge saving, would it not?

Dr Woods: Potentially, but one would need to have a well-thought-through, properly presented business case that considered the existing cost structure. We would apply that approach to all changes on such a scale. Intermediate arrangements of some kind would still need to be put in place. The short-term costs and long-term benefits would need to be weighed up.

George Foulkes: There would be losses in terms of local input, in Aberdeen or Orkney, for instance.

Dr Woods: Potentially. You make a good point, if I may say so: people greatly value local health boards. Although the health service functions in an

integrated way and as a whole for people in Scotland, people nonetheless want to have access to a local organisation that they believe should be responsive to their needs and concerns. That aspect would have to be weighed as well.

George Foulkes: Which brings me to a subsequent question. Local MSPs in Lothian had a meeting recently with NHS Lothian to discuss its plan to reduce the number of its nursing staff by 333. Would you consider that to be an efficiency saving?

Dr Woods: I think that the board is saying that it can deliver everything that it needs to achieve with the workforce changes that it has described and that it intends to achieve those changes through natural wastage, not filling vacancies and staff turnover. In that respect, no one is going to lose a job, but there will be fewer job opportunities at the end of the process.

George Foulkes: And a much inferior service to the public. Surely 333 nurses in NHS Lothian are not surplus to requirement.

Dr Woods: I am looking for the Lothian data among my papers. In Scotland as a whole at 1 April this year, there were 59,257 nurses and midwives. We should remember that the projections are not necessarily cast in stone: boards must work their way through them. We are determined to apply downward pressure, so that boards can try to achieve savings in other ways. However, in Scotland as a whole, the projections suggest a decline of 1,500, which is 2.6 per cent.

I come back to my earlier point about the importance of the national monitoring group in ensuring that the consideration of quality is central and, indeed, takes place at a local level. I am sure that Mr Barbour and his colleagues from NHS Lothian would have explained that they have worked very closely with trade unions to ensure that service standards and quality are properly maintained.

George Foulkes: Professor Barbour and Dr Winstanley actually flunked the meeting, because they knew that this was—maybe that was not the reason, and I am reading too much into it. However, they did not attend the meeting; it was chaired by the vice-chairman, so we did not get an explanation. Surely common sense indicates that if you take 333 nurses away from the staff in a health board, there must be a reduction in service, otherwise it beggars belief and is a miracle like that of the loaves and the fishes.

Dr Woods: I do not believe that it is impossible to achieve that reduction. We have discussed in this committee over the years the need for greater efficiency and productivity in the health service. What really matters is that we can demonstrate that the need for nurses or, indeed, any other

group of staff has been carefully considered, using methods to assess the needs of patients and the skills mix of nursing and other staff. In that regard, it is important for the committee to be aware that we require all boards to use particular methods to examine the relationship between the needs of staff and the numbers and skills mix of nurses. A great deal of work has been done with colleagues in the nursing profession and with their staff-side partners to ensure that those tools are fit for purpose. We can demonstrate through that work that we are getting the balance right. However, I understand Mr Foulkes's point. What I am trying to convey is that that is why we have put in place the arrangements that we have. We must ensure that, as boards address the need to improve quality and balance the books, concerns about quality are properly addressed.

George Foulkes: A last question, then. If one of those nurses came to me—as I am sure that they will—and told me what she did in the hospital then asked what would be lost if your job, for example, were to go, how should I reply to her?

Dr Woods: First, you might want to establish whether she was moving on to something else. We would not—

George Foulkes: I think that you misunderstand me. What if she asked, "What would happen if Dr Woods lost his job?" Would that be an efficiency saving? Would it damage the health service? How would I explain to her the importance of your job—not you personally, but your job?

Dr Woods: You would refer to the role that I play in advising ministers, providing leadership to colleagues in the Scottish Government and contributing to the Scottish Government and the NHS as a whole. The point that needs to be considered is not my particular role. All of us who work in the public service need to understand and be prepared to address how we can do things differently. That is really all that I can say.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning, Dr Woods. I will follow up some of the questions that Lord Foulkes and other colleagues have put to you. Some of them go to the heart of committee members' concerns about the Audit Scotland report and what we have seen since, in particular the various announcements about reductions in staff counts in different NHS boards and their impact on services. We are looking for reassurance from the Scottish Government that there will not be an adverse impact on the quality of care.

I will expand my question a little on a slightly more philosophical level. How should we measure the effectiveness of the national health service? Should we measure it as we have traditionally

done, on the basis of inputs, looking at the amount of money that we put into it and the number of staff who are employed in it, or should we measure it on the basis of outputs—in other words, the quality of patient care? I am interested in your understanding of that question. I also seek a reassurance from you that the Scottish Government will put pressure on health boards to ensure that the quality of patient care will not be adversely affected by the reductions in staff numbers.

Dr Woods: I can give you a complete reassurance that that is the focus of our work. We are just embarking on the round of annual reviews, and the second item on the agenda is quality of service—quality of care. It is clear to us that we need to maintain a focus on that.

I will make a point about the link between quality and efficiency before I answer your question on outcomes, which is important. The CMO may want to comment on this in due course. Tackling health care associated infections is a hugely important priority for all of us. It goes to the very heart of quality of care, and we have made a lot of progress on it. Only yesterday, the cabinet secretary announced a further target of a 50 per cent reduction in the number of *Clostridium difficile* cases. As well as that being entirely the right thing to do for patients and for patient care, we know that it reduces length of stay in hospital and leads to improved efficiency in the use of resources. Studies have quantified the financial benefits of that. That illustrates the kind of relationships that exist.

10:45

Your more general point about the tendency to focus on inputs rather than outputs or outcomes is important. In our work on targets and so on, we have ensured that all the work that the health service does can be mapped back to the Scottish Government's national outcomes and to the strategic objectives—the purpose targets—so that there is a line of sight through all that work and the work that we are pursuing in relation to process targets. Indeed, the Scotland performs website, which was created by the Scottish Government and may be referred to in the Auditor General's report, is intended to report publicly on that. The health service is the first part of the Government to provide the level of detail that allows you to see right from the purpose targets through the national outcomes that have been established and on to performance at national and health board levels. That is something that the Auditor General has wanted to see.

We believe that the pursuit of outcomes is hugely important, and the work that we have done in relation to health improvement, efficiency,

access and treatment targets supports that objective.

Dr Harry Burns (Scottish Government Chief Medical Officer and Public Health Directorate):

I am listening to the discussion about 2 per cent efficiency savings, workforce changes and so on. Clearly, those would be difficult to achieve if health care were static, but it changes rapidly. Like Lord Foulkes, I go back to the time before there were trusts. In those days, when I was a consultant at Glasgow royal infirmary, a gall bladder procedure was a significant procedure that required a stay of eight to 10 days in hospital. Very soon after keyhole surgery was introduced, it took a day or two for someone to recover from a gall bladder procedure. That meant that we did not need to staff nearly as many hospital beds. A whole load of surgical procedures have changed radically in the way in which staff are required to support them. It is important that, year on year, the health service considers such changes as they take place and reacts to them.

A classic example of that is drugs coming off patent. When expensive patented drugs come off patent and generic equivalents appear, it is important that the health service uses resources effectively and makes the appropriate switch. The annual search for efficiency must take those changes and patterns of care into account and use resource effectively. When I was a junior doctor, one of my major duties every morning was to spend an hour or two going round the ward taking blood. Junior doctors do not do that any more, as there is a changing workforce pattern and phlebotomists now take all the blood. The idea is that expensive resources should not perform tasks that less expensively trained individuals can do. There have been significant changes, and it is important that we react to them.

It is a source of some irritation—saving the presence of the accountants and economists in the room—that we measure efficiency by inputs and count the number of people who receive those inputs. It ought to be about the benefit to those people—their sense of wellbeing and the improvement in health that we create across the whole community. Instead of measuring the money that goes into the health service, we should measure how well the people of Scotland are at the end of the day. That is difficult to do, so we revert to doing the easy thing, which, as we saw from the recent Nuffield report, often trivialises what the health service does. Efficiency needs to be thought of on a broader, more ambitious scale. I have high ambitions for the health service, as does everyone who works in it. It is about making the people of Scotland live longer, healthier lives.

Dr Woods: That is why one of the national outcomes is healthier life expectancy. We are trying to orientate all our work behind that.

George Foulkes: Dr Burns described some of the reductions in pressure on the health service, but there are also huge increases in demand, because people are living longer. In a previous session, we took evidence on all the work that is being done on knee and hip replacements. There is pressure from that direction as well.

Dr Burns: Lord Foulkes is absolutely correct, convener. However, even in the case of knee replacements, robotic surgery is coming in that will make operations much easier and require less blood transfusion, which in itself will shorten lengths of stay. Technology is changing the way in which we think about things. On hip replacements, the first port of call is now hip resurfacing, which is far less traumatic than hip replacement. Each year, we have to think about what the extra demands are and what things we can give up to meet those demands, hence the need for us to ask health boards where we can achieve efficiencies and where we can move resources around in order to meet those demands.

Bill Kidd (Glasgow) (SNP): Thank you for the information that you have given us so far, gentlemen. In the health service, it is a wee bit of a case of being damned if you do and damned if you don't. We have heard that life expectancy is increasing, which obviously is a success story, but the fact that people are living longer might have a great impact on the finances that the health service requires. Is that factored into the planning of future efficiencies and costs? Do you take into account the fact that we have a longer-lived and, we hope, healthier population? A number of different factors are involved, but do you consider the extension of life expectancy when you are planning future budgets?

Dr Woods: Yes. We know, for instance, that one driver of the increased volume in prescribing is the fact that people are living longer. We obviously think about that carefully.

In a broader sense, we think carefully about demographic trends. In "Better Health, Better Care", we have tried to create a situation in which we are better at anticipatory care, recognising needs early on and providing appropriate services for people. Beyond that, we are undertaking an important piece of work jointly with the Convention of Scottish Local Authorities on how we will care for older people in the next 10 to 15 years. We talked to the committee previously about some of those complex but important issues.

I am pleased to say that the work that we have been doing with COSLA has been productive in helping us to understand how we can use the

totality of public expenditure on older people much more effectively. As I said to the committee previously, the total budget is far larger than just the personal care component or the resource transfer component. We have that very much in our sights and it is part of the general consideration of how we will provide care given that people are living longer and healthier lives.

Bill Kidd: I do not want to jump ahead, but given what you have just said, I think that it is the right moment to ask whether you propose a shift to more primary health care rather than secondary health care. Previous NHS overview reports have stated that evidence of large-scale transfer of resources from secondary to primary and community care has been limited.

Are health boards and the Scottish Government's health directorate transferring large resources from hospitals to primary and community care, to reflect the rise in life expectancy, which will mean that people will be in the community rather than making constant visits to hospital?

Dr Woods: I think that you are referring to a policy that has been given the label "shifting the balance of care". I take the point in the Auditor General's report about the shift of resources in that way.

We do not think that a single measure can do justice to what we are trying to do in relation to that policy, so we are trying to do three things. First, as you said, we sometimes try to shift the location of the delivery of care. Secondly, we are trying to move to prevention and anticipation rather than treatment—that is sometimes described as trying to get upstream rather than downstream. The equally well and keep well initiatives are the two big programmes that we have been pursuing to try to achieve that move. Interesting things are emerging from that work. Thirdly, we have been considering how to shift responsibility for the traditional care of patients among professionals. We have talked to the committee about extended roles. For example, podiatrists can make a bigger contribution to orthopaedics.

Shifting the balance therefore involves a broad set of objectives. The breadth of our policies in that regard is reflected in a number of HEAT targets. For example, we have ambitions to get on top of accident and emergency attendance and we have targets on doing more in relation to the self-management of long-term conditions and the management of complex care needs at home.

We are trying to secure important improvements in our ability to capture such activity and its costs. I will mention two pieces of work in which the committee has taken an interest: the integrated

resource framework, which is a joint piece of work with local authorities in four parts of Scotland; and programme budgeting, whereby we take a slice of activity or expenditure in the health service and try to assemble data that will enable us to consider how we might allocate resources differently across that segment of spend. That is part of the work behind the scenes to try to support the shifts that I have described.

Nicol Stephen (Aberdeen South) (LD): You mentioned that the NHS is due to achieve a 2.6 per cent reduction in the number of nurses. Is that correct?

Dr Woods: That is the projected reduction in the number of posts, according to the table on projected changes.

Nicol Stephen: Can you give figures and a percentage in relation to the reduction in the number of doctors?

Dr Woods: Yes. The projected reduction is 68 posts, or 0.7 per cent.

Nicol Stephen: The impact on nurses will be heavy in comparison with the impact on doctors.

Dr Woods: Proportionally, the largest projected reduction is in management posts, at 7.5 per cent.

Nicol Stephen: How many posts is that?

Dr Woods: The current number of staff in post is 1,312 and the number is projected to go down by 99 posts, which represents 7.5 per cent of the total.

Nicol Stephen: That is helpful, thank you.

Dr Woods: The table has been published at national level and for individual boards. Posts in administration services are projected to go down by 1,053, or 4.1 per cent.

Nicol Stephen: The largest number of projected reductions in posts—I accept that it is not the highest percentage of total posts—is in nursing staff.

Dr Woods: It is, and of course nursing and midwifery is the largest group of staff in the health service at 59,257.

Nicol Stephen: Indeed. I assume that, in some health board areas, the figures are higher than the national average and in some they are lower. What is the highest percentage of nurses that it is proposed to—

Dr Woods: I would have to go through the table, but the data are there.

Nicol Stephen: Is there a significant variation?

11:00

Dr Woods: I cannot recall off the top of my head. I would have to look at the individual tables. What I can say—which I hope will be helpful—is that, in our dialogue with the health boards, we wanted to be sure that, to fulfil the cabinet secretary's commitment to the importance of front-line clinical services, there was no weighting in relation to nursing and midwifery. Although we value the contribution of administrative and management staff, we wanted to be sure that we could achieve change in those areas if we wanted to. I am happy to give Mr Stephen the detail that he wants, but there are numerous pages here and it would take too long to flick through them.

Nicol Stephen: You are telling us that you have looked at the figures by health board area.

Dr Woods: Yes.

Nicol Stephen: You cannot give us the figures just now.

Dr Woods: Well, they are all published.

Nicol Stephen: They are all published but—

The Convener: If you get us the figures, we can circulate them to committee members.

Dr Woods: Absolutely.

Nicol Stephen: You would be concerned if there was one outlier or an area in which the figures were substantially higher than they are in others. You would have picked that up in the process.

Dr Woods: We would want to have a dialogue with the board to explore what lay behind the figures, and to ensure that the local and national monitoring arrangements were picking up the variation. We would also want to be satisfied that the health board was using the workforce measurement tools in nursing that we talked about earlier.

Nicol Stephen: How do you expect individual health boards to identify the number of individual nursing posts that are to go? What is the process for achieving that? Is there a general figure or is there a carefully structured process that identifies posts department by department or discipline by discipline?

Dr Woods: I will talk about Glasgow, which has a big health board that makes up 25 per cent of the NHS. In our dialogue with the health board, we have asked Glasgow to explain how its proposals match its service strategy, and how the changes relate to the development of ambulatory care hospitals and the redevelopment of the Southern general hospital. We have also asked how it used the workforce measurement tools to make those assessments. That is the kind of dialogue that we

have had. Of course, that dialogue is far from finished. We are covering the territory in the annual review meetings, which have started and will continue over the next couple of months.

The Convener: This is your final question.

Nicol Stephen: Surely the decisions that the health boards are making are driven by the scale of the savings that are required. That is the starting point. The primary objective is to achieve savings; it is not to protect services or the quality of patient care. At what point in the process would a health board say that its savings target was prejudicial to patient care or the quality of service? Will everyone in the NHS accept a minister saying that services are secure and patient care will not be affected?

Dr Woods: We are pursuing all the objectives that you have described, not one to the exclusion of the others. As I explained, we are very committed to driving up the quality of care. We are also committed to improving the efficiency and productivity of the health service, and we are committed to ensuring that the health service responds to the changing needs that exist—

Nicol Stephen: But there becomes one fixed savings target and a single figure—

The Convener: Let Dr Woods finish. Then we will move on to questions from Cathie Craigie.

Dr Woods: I am sorry—could you repeat what you said, Mr Stephen?

Nicol Stephen: In every health board, there becomes one fixed savings target—a single figure that the health board is trying to achieve in efficiencies and savings.

Dr Woods: The 2 per cent?

Nicol Stephen: The 2 per cent is part of it, but the overall budget is probably the most fundamental part.

Dr Woods: We encourage boards, if they can and if they have well-thought-through plans, to exceed the 2 per cent target because, if they do, they can reinvest those resources in new services. The existence of that incentive to generate more than 2 per cent efficiency savings is important. Indeed, a number of boards have efficiency targets of more than 2 per cent.

Let me come back to your concern about quality. If we became aware of a concern that an approach was allegedly having an adverse impact on quality, we would obviously want to know what had gone on locally in creating the proposal and other local arrangements. No doubt, if there was a concern, it would be escalated to the national level. We would take a close interest in all of that.

Nicol Stephen: Thank you, that is helpful.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): Good morning to you, Dr Woods, and your colleagues. You have mentioned Glasgow a couple of times this morning—the redesign of the services there and how resources have been invested in other areas. That is one issue that we explored with the chief executives, as I am sure you will be aware from the *Official Report*.

The chief executives highlighted that service redesign is needed to achieve savings in future years, but they recognised that, as happened in Glasgow, it can often take a very long time. How will the Scottish Government support the boards that wish to redesign services and ensure that they continue to provide quality care and services during periods of change?

Dr Woods: Change can be very uncomfortable. Over the years, we have seen many controversies about proposed changes, and the health service has learned many lessons from them. Put simply, there are two important lessons: the need for engagement of staff, and the need for engagement of the public from the outset in the development of proposals for change. We have tried to ensure that that happens in a number of ways.

Earlier this year, we published a revised piece of guidance about the consultation process—actually, it is a revised approach to the management of change. Again, it might be helpful for the committee to receive that, because it is a considerable advance on the previous guidance, which existed for 20 or 30 years. We developed it through an extensive dialogue with all the interested parties that members would expect to be involved.

The Scottish Health Council, which has been created to provide a perspective on the quality of engagement and consultation, will play an important role in the process. Moreover, ministers have introduced an independent scrutiny process to deal—if necessary—with cases of significant service change. Finally, it is worth mentioning that ministers very recently secured legislation to pilot direct elections to NHS boards, and Fife and Dumfries and Galloway now have some newly elected non-executive members. Such an approach will again improve the capacity for engagement and consultation with local communities.

In all those ways, we have been trying to ensure that the lessons learned as a result of certain major processes that have taken place in Scotland are embedded in revised practice.

The Convener: I think that we will leave for another day the question whether elections to health boards were a wise use of scarce resources.

Cathie Craigie: I have to say that I am looking forward to seeing the outcomes of the pilot. I support the principle of health board elections—and, indeed, have supported the pilot—but my intelligence on the ground suggests that the process has not been as successful as some of us had hoped. However, we will leave that issue hanging on the wall until we see the outcomes. I might well have to eat my hat in some places.

Dr Woods: Notwithstanding what the convener has said, I have met all the newly elected—

The Convener: No, no—let's not go there.

Dr Woods: Not today, then.

The Convener: It could take us down a whole different track.

Cathie Craigie: I know—I could talk about the issue for hours.

Service redesign is very important. Dr Woods will know all about the proposed redesign in the Lanarkshire area, which I represent, and the difficulties of engaging the general public and pleasing everyone, including politicians. I am sure that, at the time, he could have seen me and my colleagues far enough. However, we should learn from the experience in Glasgow. At Stobhill hospital's ambulatory care unit, you can see a consultant, get everything checked out and come away the same day with a diagnosis or something that you are happy with. That approach is certainly worth while but at a time when resources are tight how can we secure the money up front to ensure that before any changes are made to service delivery the general public, the patients and the people whom we are here to support can see the big picture?

Dr Woods: There are perhaps two dimensions to that question. First, anyone who has visited an ambulatory care centre will have seen the incredible services that it can provide with results such as the advance that has been made in health care in Glasgow. However, as Dr Burns will tell me, planning for these centres started 20 years ago, which shows that it can take an enormously long time to illustrate what certain changes will mean and convince people of that. The point, of course, is how we illustrate the benefits of these measures in a tangible way for people.

The second part of your question relates to making financial provision for some of the changes, which I acknowledge is a really quite complex issue. Some, for example, have suggested that we create a national fund for change or some other kind of bridging resource. When we did that for mental health and learning disability services, we had many critics because the approach became somewhat bureaucratic, there was a sense that people were not

necessarily being treated equitably and the whole thing became very difficult to manage. As a result, it was abandoned and the resources were distributed to the health service, in which our current policy is that people should make provision for significant service change in their financial planning.

That is what we have seen in Glasgow in relation to preparation for the ambulatory care centres and the Southern general and it is what we are seeing in relation to the new Larbert hospital in Forth Valley, one of the first phases of which will open this year. Do you take money off the health service to create a national fund and then create a bureaucracy to distribute it back in some way, or do you integrate it with the financial planning of individual boards? We think that it is better to do the latter.

11:15

Cathie Craigie: I do not know, but you are the people charged with trying to find the best way of doing things.

Given your evidence this morning, I think that you agree that we still need to focus on a shift from spending money on acute services to spending it on primary care services. Dr Burns said that it was important to invest in primary care services.

I return to the experiences of the redesign in Lanarkshire. The document "A Picture of Health" was about trying to put services where they were needed—at the coalface in local communities. Although I did not totally agree with the proposals in that document, I agreed that we need to invest in our local health centres and in bringing services to the community, so that people do not have to travel to access them. Because of decisions that were taken about the redesign of services, that has not been able to happen in Lanarkshire—I do not know whether the situation is the same down in the NHS Ayrshire and Arran area. How is the Government trying to improve community services—if we all still believe that that is the best way to ensure that people lead longer, healthier lives?

Dr Woods: I will say something about Lanarkshire and then something about Ayrshire.

Cathie Craigie: I am sorry; I just used that as a specific example of which I have experience.

The Convener: Can you be brief, as we really need to move on?

Dr Woods: I will probably not be able to cover all the points that I was going to make. I think that I covered the essential points of our policy earlier. I do not wish to be discourteous, but given that time

is short, I do not want to reiterate the things that I said earlier about shifting the location of care.

I add that over the past four or five months we have been having a dialogue about the development of primary care in Scotland. We have had meetings with a wide range of primary care professionals the length and breadth of the country. We are looking carefully at the performance of community health partnerships to see how they have been getting on since they were created. All that is informing our current reflections on what more we can do to support the direction of travel that I described earlier.

Willie Coffey (Kilmarnock and Loudoun) (SNP): No matter the fledgling nature of some of the democratic institutions that are forming, I would much rather have elected bodies of some sort than unelected bodies. I think that the bodies need to be given an opportunity to grow and develop.

Sometimes when I come to Public Audit Committee meetings I think that I am actually at the Finance Committee or the Health and Sport Committee, because we gaze into the future a lot, when, in fact, the scope of our work should allow us to examine past performance and so on.

I return briefly to the issue of measurement and continuous improvement, which one or two members talked about earlier. How do we measure how we are performing as we are performing? We all understand that if the NHS—or any other service for that matter—shifts to an outcomes-focused service, sometimes the results and benefits will not be known for some years, or indeed many years. While we are making that journey—the patient journey in the case of the health service—how do we know that we are making good, wise decisions that will benefit not only the public but the public purse?

Dr Woods mentioned a couple of measures that are in place: the integrated resource framework and the programme budgeting exercise. Do they allow you to affect service planning at present, and are we seeing the results of that? Alternatively, will you choose to apply those measures in the future?

Dr Woods: The two pieces of work that I described are intended to remedy shortcomings in some of our planning and costing methods, which have been considered previously. We are trying to put them right.

We focus on outcomes. The Auditor General published a report on the public finances in November last year that contained an important diagram setting out the fact that, when thinking through investments in public services, one must consider outcomes and—working back—outputs, processes and inputs. A welcome shift has taken place in the debate from inputs alone to outcomes,

but we need to consider carefully processes and outputs so that we can assess the extent to which what we do will secure the outcomes that we pursue. That is what the integrated resource framework and programme budgeting are intended to enable us to do.

Willie Coffey: That is encouraging. Audit Scotland's overview report said that no link existed between specific activities and their costs. Are the measures that you describe addressing issues such as not knowing the relationship between cost and activity and therefore the benefit?

Dr Woods: We are doing work, which I have not mentioned, to review the cost book and improve its quality. The context for some comments in the report is that our approach to costing in Scotland is not similar to that in England, which was designed for the payment system there. That is called payment by results, but it is actually payment for activity rather than results—I hope that my comment is not considered inappropriate. In England, detailed costing is needed to support the approach to competition and contestability. As our health service in Scotland is designed differently, we have not gone down that route. Nonetheless, we are committed to improving the quality of our costing information and ensuring its reliability and consistency.

Willie Coffey: The committee has noted many times that data and information are not available nationally in Scotland and that they live in various health boards. Is a move being made to provide the committee and other interested bodies with the national picture on a range of indicators, particularly in health care? A common message throughout our meetings on health matters is that we do not have nationally collected information.

Dr Woods: I do not deny that we can always improve. However, I will add a couple of points. Audit Scotland submitted to the committee—I do not remember precisely when—a report on the activities that we undertook to improve the data that ISD Scotland holds at the national level, for instance. The conclusion of that discussion was that we were making quite a bit of progress.

We had a review in 2005. We are in the midst of assessing how far we have gone with that. We will in the coming months develop a new strategy for health and care statistics for the next five years.

I return to the Audit Scotland report that I mentioned. ISD collects 60 national data sets and has built a reputation across the United Kingdom for the quality of its data. Often, the questions that are asked are not directly answerable from some of those data. However, there is a lot of analytical capacity in ISD to try to answer the questions and we are making progress and creating data sets that are incredibly valuable.

I will provide two recent examples to illustrate the point. The committee has looked at our implementation of the new ways of measuring waiting times, which was a very large undertaking. I was pleased that the audit that was conducted showed that the health service had done well in that respect. Another hugely important data set is the data on hospital standardised mortality ratios that we published earlier this week, which are intended to give us an insight into the progress that boards are making on our patient safety programme. The production of those data has been made possible by the work that ISD is doing on national data sets.

There is a degree of imperfection, but we are committed to improving matters, are making progress and want to make more. That is my perspective on the issue.

Anne McLaughlin: You said that sometimes the questions that we ask of national data sets cannot be answered. One question that we asked after considering the overview report concerned the number of young people who present to A and E under the influence of alcohol. Anecdotally, that appears to be a growing problem. We have examples from specific health boards where that is the case, but we have received a letter from NHS Grampian that states:

“the data to support these statements is difficult to obtain due to the lack of a consistent and replicable information system across Scotland.”

I know that ISD is developing a national data set for A and E. Is it possible to include in that figures for young people who present under the influence of alcohol?

Dr Woods: As part of our e-health strategy, we are standardising A and E systems across the country. That is an important starting point. You have referred to the work that is under way in ISD, which will improve the quality of those data. We will have further discussions with ISD about whether we can ensure that some data are captured. There are really difficult issues relating to definitions, standardisation and so on, to get the quality right. I know that the CMO has been looking into the issue. I invite Dr Burns to comment.

Dr Burns: First, the number of very young people attending A and E departments with alcohol-related problems is small compared with the overall problem of alcohol, so it is subject to significant year-on-year variations. Small numbers—an extra dozen a year across Scotland—can double the total. We are always cautious about interpreting statistics that involve small numbers.

Secondly, the definition in the data set of an attendance that is associated with alcohol

consumption is left to the clinical judgment of the doctor who sees the patients. Consider the case of someone who drank two pints of beer, tripped, fell and broke his arm. Did he trip because he had drunk two pints of beer or because his shoelace was not tied? That is the sort of judgment that must sometimes be made, so inconsistencies are involved.

Dr Woods is correct to say that there are issues relating to definitions. Ten of the 14 territorial health boards have one system for recording such data; the others have a different system. ISD is doing work to ensure that there is consistency across those systems, so that we get the data that we seek. The information that I hold about under-15 hospital discharges that are associated with alcohol shows that they have been pretty flat throughout Scotland over the past decade.

11:30

Anne McLaughlin: It is flat, so it is not increasing.

Dr Burns: The information that I have up to 2008 does not show a significant increase. I am talking about hospital discharges, not A and E attendances. Adult hospital discharges associated with alcohol are increasing consistently, but the number involving under-15s is relatively small.

Anne McLaughlin: I hope that, if we manage to get our minimum alcohol pricing policy through, the number will reduce, but it would still be useful to be able to look at national figures.

Dr Burns: Any instance—it need only be one—of a young child presenting at an A and E department with an alcohol-related problem is a disaster. That is a life that is in some difficulty.

Murdo Fraser: I will follow up on that point. You will have seen the letter that we received from Dr Strachan at NHS Grampian, with the helpful tables attached. When you drill down through the information, it seems to support what you were saying about there not being a substantial increase—in fact, there is very little increase. Such increase as there is would seem to be among the zero-to-five age range. Perhaps I am making an erroneous assumption, but I suspect that the toddlers of Aberdeenshire are not involved in drunken parties. I suspect that it is probably a case of a toddler drinking a glass of wine that was lying around the house and their parents taking them down to A and E, which is clearly a social ill but a completely different social ill from youngsters binge drinking. It would be helpful if we could get more robust data on the matter.

Dr Burns: In my experience of reviewing a range of clinical conditions for research purposes, in such cases you would want to go back and get

case records out. I suspect that, in such cases, when you pull information off a computer system you need to go a stage further and look at the circumstances involved to be certain that you are dealing with what you are talking about. I think that we need to have a conversation with NHS Grampian to ask it to go that extra stage and look at the case records of the individual children concerned.

The Convener: The final issue that I wish to raise is deprivation, which I know is a matter that Dr Burns has spent some time on. Notwithstanding what Dr Woods is saying, which is that we want to see better outcomes and better results from fewer inputs—I know your reservations about the accountants and economists—there is always the worry that the impact of efficiency savings will be more severe on areas of the country where deprivation is high and will damage the attempts that are being made to improve health there. A number of recent reports have questioned the improvement in Scotland's health, particularly in areas of deprivation, despite the fact that there have been significant increases in investment. What is your take on what the efficiency savings will mean for your strategy and our collective desire to see deprivation tackled?

Dr Burns: The ways in which you can narrow the gap in health between rich and poor include steps such as ensuring that the poor have access to good health care. Over the years, I have looked closely at the issue, particularly in the cancer field. For certain cancers, such as breast cancer, there are differences in survival rates: rich women are more likely to get breast cancer, but poor women are more likely to die of it once they get it.

Some years ago, I looked in great detail at the health service's response to that. We discovered an interesting phenomenon, which is that access to health care is identical across the social spectrum—there is no evidence that women from poorer areas are treated any less well. In fact, there is some evidence that, because of the nature of the cancers they get, they get more chemotherapy and so on than more affluent women do. What we discovered was that there were subtle differences in the kind of tumours they had. That leads us back to the way in which we have to tackle health inequalities, which relates to the structure of society.

We need a number of societal interventions that make it easier for people to adopt a healthier lifestyle. People are more likely to do that if they have a job and a decent house, if they feel that life is worth living, and if they are not living in a deprived area where they are constantly under threat either because they cannot pay their bills or because there is a culture of violence in the area. We now understand that people are more likely to

succeed at school and get a job if conditions in early life are appropriate. Over the years, my strategy has moved to focus much more clearly on the early years.

Some disturbing data emerged recently from a study that was conducted in Glasgow, Liverpool and Manchester. We tried to pick two cities whose socioeconomic composition is similar to that of Glasgow. The distribution of income among the residents of those three cities is almost identical—when we look at that, we cannot tell the cities apart. However, mortality across the board in Glasgow is 15 per cent higher than the average mortality in Liverpool and Manchester. It is higher among the affluent as well as among the deprived. When we look at causes of death, half the excess of mortality in Glasgow compared with Liverpool and Manchester is accounted for by alcohol and drug-related poisonings. If we add violence and suicide, the figure goes up to about 60 per cent. That tells me that there is a psychosocial driver that is leading people to adopt a chaotic lifestyle, and the causes of that are social interventions.

To return to your question about the health service, another policy that will clearly help deprived areas and indeed is focused on them—it was set up as part of the Kerr report under the previous Government—is what Dr Woods referred to as anticipatory care under the keep well programme. In that work, we specifically target extra resources to deprived areas to pick up people with undiagnosed high blood pressure or high cholesterol and prevent that from leading to their having strokes, heart attacks or long-term limiting illness. We have the evidence for that strategy and we are selectively putting extra resources into deprived areas. That is absolutely correct and we will continue to do it as much as possible. However, the causes of health inequalities are to do with structural issues that need to be tackled not just by the health service but by local government, social work, justice and the whole of Scottish society.

The Convener: How will you be able to guarantee that the efficiency savings do not impact more severely on cities such as Glasgow and the small pockets of deprivation that are scattered across Scotland?

Dr Burns: Under the mechanism that Dr Woods set out, the impact of proposals that come from health boards will be scrutinised. The boards' reasons for saying that certain jobs can go will be scrutinised closely to assess the impact on services.

The Convener: Either Dr Woods or ministers will have the final say on whether the job cuts will be at the levels that have been suggested, and either Dr Woods or ministers will have the final say on how money is spent and saved.

Dr Woods: Ultimately, accountability rests with the Scottish Government, but the boards nonetheless have an important role. Our interest will be awakened if we have drawn to our attention evidence that boards are embarking on changes that do not support national and local priorities of the sort that we have been discussing.

George Foulkes: If there are no compulsory redundancies—we have had a guarantee of that—and it is all done by voluntary redundancies, surely the vacancies will be haphazard. Some departments might lose all their staff. The people who are likely to go are the good people who have been there for a long time and who will get a good redundancy package. It is likely that the people who hang on will be those who are relatively incompetent and who know that they will not get a job elsewhere. Is that correct?

Dr Woods: No, I do not think that it is. We are trying to manage this through turnover, which we estimate to be about 7 per cent. The loss of posts is about 3 per cent. On your point that the vacancies will be haphazard, clearly we want the boards to keep an eye on that—[*Interruption.*]

The Convener: I am sorry. Whoever's phone that is, can they switch it off?

George Foulkes: Now I can get my answer.

Dr Woods: As turnover occurs and vacancies arise, we expect boards to consider carefully their impact as part of the analysis of the situation. Some posts that become vacant might be filled because they are regarded as being particularly important to particular programmes—I am not saying that some jobs are more valued than others, but they will have to be assessed against the objectives that the boards are pursuing.

The Convener: It would be grossly unfair to leave an impression that, after voluntary redundancies take place, those who remain are incompetent. I do not think that the committee accepts that view. However, George Foulkes was right to say that we could lose the accumulated experience of a lifetime invested in services. We saw that in local government reorganisation, when talented people left at a relatively young age because there was an attractive financial package. That left people who were still developing their competence and experience to shoulder the burden. There is a valid point that the burden falls on people who are left to their own devices in areas in which experience has been lost.

George Foulkes: You have put the point far more diplomatically than I did, convener.

Dr Woods: There are no compulsory redundancies, and voluntary severance in the way that has been described is not part of the boards' plans. Last year, the only board that ran a

voluntary severance scheme was Grampian; as far as I know, none of the other boards is planning for any scheme of that nature. We do not anticipate that the situation will unfold in quite the way that you have described. Nonetheless, if people choose to leave because they have a job elsewhere, and their post is not filled, the board will have to consider whether to keep that vacancy and how to manage it within its overall workforce projections. It is a very important point.

The Convener: Cathie Craigie will make a final point.

Cathie Craigie: I am flicking through the report because I am sure that it mentions something about the way in which the number of unfilled posts is calculated. Am I right in saying that? I am looking at Barbara Hurst because I am sure that there is something in the report about how that is calculated within the efficiency savings. Could you follow up on that and let the committee know how many unfilled posts there are across the boards and what the total cash amount is?

The Convener: You can revert to us with that at a later date.

Dr Woods: I am glad to say that the Auditor General looks suitably perplexed.

The Convener: If you can find any information that can help with that, you can send it to us.

Cathie Craigie: It might have been another Audit Scotland report.

The Convener: Thank you. It has been a long meeting. I am sure that the issue will come back to the committee during the next few years as the financial implications of what we have been through and the budget that has just been announced hit us. This will be the first of many discussions to be held over the next few years.

Dr Woods: Thank you.

The Convener: We will have a break for five minutes.

George Foulkes: Is it an official break?

Murdo Fraser: Turn off the microphone.

The Convener: It is an official break.

11:44

Meeting suspended.

11:49

On resuming—

“The Gathering 2009”

The Convener: I invite the Auditor General for Scotland to brief the committee on the section 23 report, “The Gathering 2009”.

Mr Robert Black (Auditor General for Scotland): Thank you, convener. The report was published today, so I have the opportunity to introduce it to the committee.

As I am sure members are well aware, the gathering was an event that evolved to become one of the major features of the homecoming Scotland 2009 programme. It comprised a clan gathering, Highland games and a pageant. A private sector company—The Gathering 2009 Ltd—developed, organised and delivered the event, which took place over two days in July 2009.

The gathering attracted public sector grant support amounting to about £490,000 from organisations that included VisitScotland, the City of Edinburgh Council, Scottish Enterprise Edinburgh and Lothian and the Scottish Government. The Scottish Government also provided a loan of £180,000. The event cost £2.4 million to deliver but earned only £1.9 million in income. There were losses of £516,000, and unpaid creditors were owed £675,000.

In exhibit 2 on page 7, we summarise the contribution from public funds, which came to just more than £490,000. The amounts that were eventually written off by public sector creditors, which are described in exhibit 6 on page 18, totalled £291,508. The total outlay from public funds was therefore of the order of £782,000 although, of course, the public sector funders are included in the creditors and some of that money might come back when liquidation proceedings have been concluded.

In the report, we consider the financial arrangements and the governance of the event and we concentrate on the role that was played by public sector bodies. I emphasise that the report does not include in any way an audit or full investigation of the financial affairs of the private company that was involved, which I am not empowered to examine.

The report is in two parts: in the first part we consider the organisation and delivery of the event and in the second we describe the results and what happened next. I will offer a few comments on organisation and delivery. In August and September 2007, EventScotland, the City of Edinburgh Council and Scottish Enterprise Edinburgh and Lothian each provided £100,000 of

initial funding to support the gathering. The bodies and the company agreed indicators of progress that would trigger grant payments, including sale of a minimum number of tickets and submission of a budget. A payment schedule was agreed, which spread the payments from each of the funders over the life of the event.

The Scottish Government provided £100,000 in December 2008, and the Heritage Lottery Fund provided £10,500 to support an education programme, which took place prior to the main event. In response to the slow sale of Highland games tickets to the local Scottish audience, EventScotland provided a further grant of £80,000 in June 2009 from its homecoming Scotland budget, to support additional marketing of the event.

In early 2008, the public sector funders, together with the company's directors, formed a steering group to look after their interests and to maximise the economic benefit of the gathering. The Scottish Government did not join the steering group on the award of its grant in December 2008. The steering group had a purely advisory role and had no authority to enforce changes or to impose sanctions in relation to how the company should deliver the event, so to that extent its ability to look after funders' interests was limited.

The company provided the steering group with financial projections, and financial matters were discussed at each meeting. However, the quality of the financial information could have been better. For example, provision of actual income and expenditure incurred in the run-up to the event would have helped to provide assurance about the accuracy of the overall financial projections.

In May 2009, the company informed ministers that it had cash-flow difficulties. In response, the Scottish Government provided support to the company in the form of a short-term loan of £180,000. The steering group members were not informed of that loan. At the same time, other public sector funders responded to the company's cash-flow problems by bringing forward grant payments to help to alleviate the pressure on the company. The payment schedules are summarised in exhibit 3 on page 12 of the report.

I turn to the second part of the report, which looks at the event's financial results and what happened afterwards. In its final projections prior to the event, the company described three possible scenarios based on pessimistic, more likely, and optimistic numbers of ticket sales, excluding the passport sales. The most pessimistic scenario was based on 30,000 ticket sales and forecast a deficit of £223,000. The most likely scenario was based on 40,000 ticket sales and forecast a deficit of £49,000. The most optimistic scenario forecast a surplus of £118,000,

based on 50,000 ticket sales. The company, however, reported a loss of £516,000, which was significantly worse than the most pessimistic scenario.

The event's costs were within 1 per cent of budget, but there was a significant shortfall in income. The income of £1.9 million was 19 per cent lower than the income that was projected in the most likely scenario, which was largely a result of fewer ticket sales and sales of more concessionary tickets than was originally expected. Ticket sales amounted to 32,400 and there were 7,400 passport sales, which gave people access to the Highland games on both days.

Despite the financial losses, in September 2009 an external economic impact assessment of the event reported that the event had delivered additional tourism revenue of £10.4 million to Scotland as a whole, which resulted in a return on the public sector investment of 1:21. I must emphasise, however, that we have not validated that independent economic assessment.

The scale of the losses meant that the company was unable to pay its creditors, leaving the company at immediate risk of insolvency. Given the positive economic benefits that have been reported as being provided by the gathering, ministers were keen to protect the reputation of the event to allow further economic benefits to be generated for Scotland through future gathering events. They therefore asked officials to consider options regarding the company's future, including its potential sale.

A key issue of concern was whether potential purchasers would, realistically, consider buying the company, given its level of outstanding debts. Two reasons were given for that. First, there was a low probability of recovery of the debt and secondly, there was an attempt to avoid the liquidation of the company and to safeguard the reputation and future of the gathering.

The permanent secretary in the Scottish Government decided to write off the Scottish Government's £180,000 loan. He also passed on his judgment that the debt could not be recovered to other public bodies that had incurred debts through the provision of services to the gathering, so that they could also consider writing off the amounts that were owed to them. As a result, the Scottish Ambulance Service, Lothian and Borders Police and Historic Scotland also wrote off £112,000 between them. Those actions were all in accordance with the "Scottish Public Finance Manual".

At the start of October 2009, the Scottish Government approached the Royal Edinburgh Military Tattoo and the City of Edinburgh Council

about the potential purchase of the company. The council reported that Destination Edinburgh Marketing Alliance—sometimes called DEMA—might be interested in taking on the gathering event. Following initial discussions with the council, DEMA stated that it would be interested in delivering future gathering events and the council confirmed that to the Scottish Government. However, those discussions did not include consideration of DEMA taking on the current liabilities of the company.

In mid-October 2009, the council issued a press release on behalf of DEMA, which indicated that DEMA would take on the company's remaining private sector obligations and, with the council and other public sector bodies, would develop the assets and intellectual property rights to organise future events. The press release was misleading, because DEMA had not agreed to take on the outstanding private sector liabilities of the company. It was also issued before all the facts were known, as due diligence—in other words, checks—was still being carried out and a valuation of the intellectual property had still to be finalised.

12:00

The press release created an expectation among creditors that they would be paid, which could not at that time be guaranteed. DEMA subsequently confirmed that, as a private company with limited resources, it could not take on the financial liabilities of the company. The City of Edinburgh Council then commissioned its own valuation of the intellectual property, which reported in January 2010 that it had a value of between £40,000 and £100,000. That was, of course, significantly less than the amount of the outstanding debt. The council subsequently told the Scottish Government that it could not purchase the company or the intellectual property due to budget constraints, and the company went into voluntary liquidation on that day.

There are probably some important lessons for all public bodies in the report and they are captured in the recommendations on page 4. A number of public organisations were working together with each other and with a private company, so communication was more complex than it might have been had a single public sector body been operating with a single private company. In such circumstances, it is important that the bodies involved should ensure good communication between the joint funding bodies, consider carefully the role, membership and reporting lines of steering groups and the like—including the balance between advisory and decision-making roles—and get a clear remit established. They should certainly ensure that accountability for spending public money is always

clearly understood, with an explicit statement of the degree of financial risk that is being assumed by each partner. It is important that the bodies involved should set out in advance a clear expectation for financial reports and add those to the key performance indicators that are required to be met for payments to be released, and, when a relevant company history exists, they should consider the circumstances in which due diligence checks on private sector companies should be undertaken prior to offers of funding being made available.

The team that undertook the detailed work is with me. Together, we will do our best to answer your questions.

The Convener: Thank you, Mr Black. I know that committee members have not had a lot of time to look at the detail of the report, so it is inevitable that our questions will be relatively superficial, but we may have a chance to come back to the matter at a later date.

I will pick up on a couple of points. I am astonished, but perhaps not surprised, that the permanent secretary wrote off the loan. That is an extremely generous gesture with our money, but it is not the first that we have come across from the permanent secretary—he gave a nice gesture to Dr Malcolm Reed when he left Transport Scotland and we do not know what gesture was given to Guy Houston when he left.

I want to examine how we got to this situation. It is a scandal that, at a time of scarce financial resources, public agencies such as the Scottish Ambulance Service and, I think you said, the police, are left out of pocket by what looks like a catalogue of mismanagement and incompetence. On the loan that was given, I refer to page 10 of your report: you can perhaps help me to confirm my understanding or otherwise. The report states:

“From April 2009, the financial information provided did not include figures for actual income and spend to date, but was based on forecasts of total income and spend for the event. It was, therefore, not possible to compare outturn figures with budgets, at any point in time, to provide assurances as to the accuracy of the financial projections.”

So, at April 2009, we could not assess the accuracy of the financial projections.

Paragraph 25 of the report states:

“Some steering group members told us that the financial projections were difficult to understand but they did not doubt the reliability or accuracy of the figures”.

How they could say that when the information was not available is beyond me.

The report continues:

“The group challenged the financial information, discussed the information presented and, where necessary, asked for revisions”.

We then had a situation in which

“The Minister of Culture, External Affairs and the Constitution asked Scottish Government officials to advise on the practicalities of underwriting the company’s cash flow”.

He did that after meeting the company in April 2009. At that time, if I read the report correctly, the financial information did not include figures on actual income and spend to date, but in the same month, the minister met the company and, following the meeting, he asked his officials to advise on the practicalities of underwriting the cash flow.

The report states:

“The Scottish Government did not complete robust checks of the company’s ability to repay the loan, or seek information from the other steering group members regarding the company and the event’s status.”

That is a shocking dereliction of duty. The Government threw public money around with gay abandon as if it mattered not a jot, and it did not bother to find out whether the company could repay the money. If I read the report correctly, the Government did not even tell two Government agencies—EventScotland and Scottish Enterprise, which is a non-departmental public body—that it had given a loan to the company. Why there was such secrecy on the part of either the minister or his officials is beyond me.

However, worse than that, because the public agencies were not told of the loan, when they were pressed by the company because of the financial problems, the agencies—not so much the City of Edinburgh Council, but EventScotland and Scottish Enterprise—brought forward payments to help the company out, not knowing that the Scottish Government had already given it £180,000, which the permanent secretary subsequently generously decided to write off. It is absolutely disgraceful that money was dished out to people in that way without due diligence and proper checks and scrutiny.

You might not be in a position to tell us the answer, but I wonder whether ministers put pressure on officials to bail out the organisation because ministers were concerned about the political ramifications if the event did not go ahead.

Mr Black: You covered a number of points. With help from my team, I will do my best to provide what information we have on those issues.

You started with a comment on paragraphs 24 and 25 of the report, on the quality of the financial information that was available. It strikes me that that was an important issue in the spring of 2009 because it meant that the actual cash-flow position of the company was unknown at that time. The team was advised that the steering group members found that the financial projections “were

difficult to understand”. That was undoubtedly a significant shortcoming.

Secondly, you mentioned the April 2009 meeting that involved the Minister for Culture, External Affairs and the Constitution. That meeting was arranged to discuss the broadcasting issues, but we were advised that, during the meeting, the directors also brought up the cash-flow problems. That is as much as we know about what happened at that meeting.

On the Scottish Government’s loan of £180,000, the Scottish Government believed that the income from ticket sales was being collected by WorldPay, and that it would not be released until after the event. The loan was therefore intended to be a short-term solution to alleviate the company’s cash-flow problems. We have not examined the company’s books—obviously—to determine the financial position in June 2009 when the loan was offered, so it is not possible for us to say whether there was a clear risk at the time that the loan would not be repaid.

With the benefit of hindsight, it is fair to say that the Scottish Government could have completed a more thorough assessment of the company’s ability to repay the loan, and that it might have been possible to have a fuller dialogue with the company and other steering group members, to try to get as much factual information as possible. However, it is also important to place on record that clearly time was not on anyone’s side by the summer of last year, because the event was committed to and was about to proceed. The Scottish Government, I guess, would have taken the not unreasonable view that in order to allow the event to proceed it should assist the short term cash-flow problems of the company that was delivering the event.

Murdo Fraser: It is important to put the matter in context. The EKOS Ltd report, “The Gathering: Economic Impact Assessment” concluded that the overall impact of the event had been positive for the economy. However, I concur with the convener; Audit Scotland’s report shows a cavalier attitude towards public money on the part of the Government and some of its agencies. That is a serious matter.

If I heard you correctly and read your report correctly, the press release on 15 October 2009 was misleading. It was issued before all the facts were known and, most important, it created a false expectation among creditors that they would be paid. I presume that the consequence was that creditors did not take action that they might otherwise have taken to protect their position. You suggested that creditors did not commence winding-up proceedings against the company at that point. It might be that if creditors had taken such action they would be financially no better off

than they have ended up being, but we cannot know that for sure.

What concerns me is that, according to your report,

“Council officials and the Scottish Government worked jointly on the press release prior to its release.”

It is extraordinary that the City of Edinburgh Council and the Scottish Government seem to have colluded to issue information in a press release that potentially had a negative impact on private and public sector creditors, who might have taken action to protect their position if they had not received misleading information. Can you tell us who in the Scottish Government was responsible for signing off the press release? The matter requires more rigorous investigation.

Mr Black: Your question would be best directed to the Scottish Government. We do not have knowledge of the detailed discussions that took place between the Scottish Government and representatives of the council and DEMA. My conclusion in the report is unequivocal: the press release was misleading and may well have had the sort of consequences that you outlined.

Murdo Fraser: Can you shed light on whether creditors would be in a better or worse position if the press release had not been issued and they had taken action at that stage?

Mr Black: That would be speculation. I am not sure that we are in a position to answer your question.

The Convener: I think that the City of Edinburgh Council entered into an arrangement with a creditor who had threatened to take action. Is it the case that an out-of-court settlement was reached and that there was a confidentiality agreement with the creditor?

Mr Black: Yes. That is correct.

The Convener: Therefore, at least one of the creditors who threatened to take action potentially received some financial benefit. However, the rest of the creditors, who received assurances as a result of the press release and decided to do nothing, are out of pocket.

Mr Black: It is true that the council responded to a particular creditor, who had advised in October 2009 that they would instruct solicitors to commence winding-up proceedings. That followed through into an out-of-court settlement to meet an obligation to the creditor.

The Convener: There might be questions that other people need to ask of the council.

12:15

Bill Kidd: The steering group of the three original public sector funders—EventScotland, City of Edinburgh Council and Scottish Enterprise Edinburgh and Lothian—had a quarterly meeting to follow up what was happening with the development of the company and the events that were due to take place. I do not know whether it is within your remit to comment on whether the funders carried out their duties at those meetings sufficiently to be aware of what was taking place with the company.

On the £180,000 loan from the Scottish Government, I assume that someone did not just turn up at the minister's door, asking him for £180,000. With the backing of the steering group, would it not be considered reasonable to ensure that, having gone so far, the event could continue? As it turns out—although this is something that no one could have known at the time—the external assessment is that Edinburgh in particular but Scotland as a whole benefited financially from the event. Would it seem reasonable that the minister should have considered that the loan was in good standing, because the company was being controlled not only by Red Sky at Night but by the steering group?

Mr Black: As I think I said in my introduction, the steering group had a purely advisory role, so it had no formal authority over the company whatever. It was a group that came together, really under the auspices of EventScotland, which is part of VisitScotland, to look after the interests of the public sector funding parties involved. The group met regularly and received reports, but it is clear from the audit that the quality of the financial information that it was getting was not as strong as it might have been—that is probably the central point that it is worth making.

On your other point about whether it was reasonable for the Scottish Government to provide the extra short-term loan to achieve the event, that is a matter that would best be directed to the Scottish Government.

Bill Kidd: You are probably right.

You said that the financial advice that the steering group received at its regular meetings was possibly not of the best quality. Does that mean that somebody was not carrying out their duties properly in reporting back the financial situation?

Mr Black: My general answer to that would be that, with the benefit of hindsight, the steering group should have constituted itself in a way that would have made it very clear to the company what financial and performance information should have been provided. It did have an arrangement whereby certain targets were to be delivered,

which were important for triggering the release of funds, so a duty of care was exercised there, but the quality of information provided, particularly in relation to finances, was not as good as it might have been. I wonder whether the team can expand on that more fully.

Graeme Greenhill (Audit Scotland): On the financial projections that were coming in, we were obviously anticipating the overall income and expenditure figures for the whole event when it reached its conclusion. What we were saying is that it would have been beneficial if actual income and expenditure figures to date were being reported to the steering group. If then, for example, income was running below expectations at a particular point in time, that would have allowed people to challenge whether the overall projected income was likely to be accurate. If that process had been gone through, it would have perhaps strengthened the quality of the financial monitoring and the extent to which the steering group could challenge the information.

Bill Kidd: Does that suggest that a positive spin was being put on how things were developing—basically, that everything would be all right on the night?

Mr Black: I am not sure that we are in a position to read the minds of the people involved. I am sorry about that.

Bill Kidd: It just sounds a bit like that.

Mr Black: I am sorry about that.

Bill Kidd: No, that is fine. Thank you.

Cathie Craigie: Paragraph 31 of the report tells us:

“The Minister of Culture, External Affairs and the Constitution asked Scottish Government officials to advise on the practicalities of underwriting the company’s cash flow”.

Was that in May 2009, when the company directors informed the minister that the company was experiencing cash-flow problems?

Mr Black: There was a meeting between the Minister for Culture, External Affairs and the Constitution and the company directors in April 2009. As I think I mentioned earlier, that meeting was primarily for them to discuss broadcasting issues. At that meeting, the company directors mentioned cash-flow problems and that led to the offer of a short-term interest-free loan in June.

Cathie Craigie: The steering group was not told about that in April, May or June. When was it told about the arrangement?

Graeme Greenhill: I am not sure that the steering group was aware of the loan until after the event took place.

Cathie Craigie: It was not aware of it until after the event. Okay.

Paragraph 33 of the report states:

“The Scottish Government does not normally provide loans to private companies and officials did not seek professional advice on its legality.”

However, the third line of paragraph 31 says that “Officials sought advice from the finance directorate”.

Did that not include advice on whether the finance directorate thought that it was legal to provide the loan?

Mr Black: The key point is that the loan was awarded under section 23 of the National Heritage (Scotland) Act 1985, which gives the Secretary of State the power to make payments to anyone whose activities appear

“likely to promote the development or understanding of cultural or scientific matters.”

That act precedes devolution by some considerable time, but the legislation must still be extant in some form or another that allows the Scottish Government to use it. Further questions on that matter should be directed to the Scottish Government.

Cathie Craigie: Convener, we would have to find out if that power transferred to Scottish ministers, and if there is a difference between a payment and a loan. I accept that the question should be directed elsewhere.

The Convener: That is a significant point. Is there a difference between a payment and a loan? Was that legally competent?

There is also some good business advice in the report. It states that

“The Scottish Government does not normally provide loans to private companies”,

so any private company that wants to get a loan from the Scottish Government would be well advised to wrap a bit of tartan round it and it will be okay, because the Scottish Government will find a reason to give it. It beggars belief.

George Foulkes: I just have a couple of points. The minister at the time was Mike Russell, was it not?

Graeme Greenhill: It was.

George Foulkes: You keep telling us that we will have to ask the Scottish Government to answer our questions, so who is the accountable officer?

Mr Black: The accountable officer in relation to the budget would be the permanent secretary.

George Foulkes: So we will need to move quickly before he leaves.

Barbara Hurst (Audit Scotland): He has already left.

George Foulkes: Has he?

Mr Black: Yes. A new permanent secretary has assumed office.

George Foulkes: Can we call the other one back?

The Convener: Yes.

George Foulkes: We can.

Paragraph 6 of the report states:

"The company owned the event and, as a result, its directors legally carried the associated financial risk, benefiting from any profits made but also bearing the consequence of any losses."

I am absolutely certain that if the event had made hundreds of thousands of pounds, the company would not have distributed any of it back to the Scottish Government; it would have gone to Jamie Sempill and Jenny Gilmour. Why were they not asked to bear the losses?

Mr Black: The company was established in the normal way, as a company limited by the share issue. Each of the directors owned one £1 share, so they have limited personal financial liability to the company's creditors, which reflects the share investment.

George Foulkes: Is that of £1?

Mr Black: That is our understanding.

George Foulkes: So the Scottish Government loaned those people money, the council gave them money and EventScotland approved them, knowing that if they made a lot of money, they would keep it, but if they lost money, they would be liable for only £1. Is that right?

Mr Black: I cannot say what would happen to any profits that the company made, but it is certainly true that the financial losses of the two directors would be very small. The main consequence to them would be a loss of reputation by being associated with a company that had gone into liquidation.

George Foulkes: What due diligence was done on those two people and the company? Until the matter arose, Jamie Sempill called himself Lord Sempill, but I have never seen him around the House of Lords. He is not a member of the House of Lords, is he?

Graeme Greenhill: I understand that he is the 15th Lord Sempill and so he has a seat in the House of Lords.

George Foulkes: I am sure that he does not. I have never heard of him.

Nicol Stephen: He was a hereditary member of the House of Lords in the 1990s.

George Foulkes: What due diligence was done on the two people?

Graeme Greenhill: EventScotland undertook some due diligence of Red Sky at Night when the gathering idea was presented to it. Obviously, there was no company history as the company was new, so EventScotland had nothing much to exercise due diligence work on. Therefore, it looked at Red Sky at Night, because Jenny Gilmour was a director of that company and also a director of the Gathering 2009 Ltd. It has a fair amount of experience of helping to contribute to that kind of event. I understand that Lord Sempill has a more general marketing background. He is very high up in the Standing Council of Scottish Chiefs—he is convener of it. I understand that he spends a fair amount of time in America, where gathering-style events are also popular and that he has many contacts in that area.

George Foulkes: So Nicol Stephen and I could set up a company and get hundreds of thousands of pounds of grant from the Scottish Government and the council. Is that right?

Anne McLaughlin: No.

Murdo Fraser: That is unlikely.

Cathie Craigie: It would be unlikely that you would get that, George.

George Foulkes: As you say, only certain people would get it.

I want to make another point. The EKOS report stated that the event delivered significant economic benefits to both Edinburgh and Scotland. If that is the case, we must bear it in mind, as Murdo Fraser said, but how do we know that many people did not come from Europe and America because the pound was low? Their coming here might have had nothing to do with the gathering or the homecoming.

Mr Black: We did not validate the EKOS work in any way. That is another question that would possibly be best answered by the Scottish Government.

George Foulkes: What is EKOS?

Mr Black: It is an independent consultancy.

George Foulkes: Does Jamie Sempill have anything to do with it?

Graeme Greenhill: No.

George Foulkes: That is good.

Anne McLaughlin: I want to ask briefly about two things. First, would the event have gone ahead if the Scottish Government had not given

the loan? What would have been the consequences? Would they have been worse for everyone concerned if the Scottish Government had not given the loan? I am trying to work out why it thought that it had to give the loan.

Secondly, paragraph 27 of the report explains why the company had a cash-flow problem. It states:

"The company had contracted with WorldPay to process advance sales of ... tickets ... WorldPay was withholding income ... until after the event had taken place".

Is that similar to what happened to flyglobespan?

Cathie Craigie: The report says that that was in the contract that the organisation set up with WorldPay.

Anne McLaughlin: So the company knew about it.

Cathie Craigie: The report says that the company was contracted.

12:30

Anne McLaughlin: Okay. It may not be an issue for this committee, but it is concerning when companies face difficulty and have a cash-flow problem because whomever they contracted to take care of internet sales is hanging on to the money. My main question was, what would have happened if the Government had not provided the loan?

Mr Black: Clearly, we are in the realms of speculation, but it is possible that the company would have run out of cash and would have been unable to meet its obligations. If so, it would have been trading unlawfully. It is not impossible that the company would have had to fold before the event. Given the advanced stage that the project had reached, with many tickets having been sold and many commitments having been made by providers of goods and services, it is understandable that the Scottish Government should have done as much as it could to ensure that the company got to the event.

As the report indicates, the loan was made to the company on the understanding that WorldPay would release the cash to cover the company's obligations. It is normal policy for organisations such as WorldPay to pay over the receipts after the event. I imagine that that would have been factored into the company's thinking when it was preparing its business plan. However, as the report outlines, at one point in the history of the project there was a shortfall in income streams, so that the company had what it considered to be a short-term and, therefore, temporary cash-flow problem.

Anne McLaughlin: We have not had time to read the report, as it has just been published, but I cannot help thinking that the main mistakes came early on and that the Scottish Government had little option other than to provide the loan to the company. It is just unfortunate how it all turned out in the end.

Willie Coffey: I wonder why the report has come to us on the day of its publication. I would like to find out how that came to be, as I do not recall another occasion in the lifetime of the Public Audit Committee when it has been asked to examine a report that has been released and put on the table that very morning. I do not recall the matter being on the committee's agenda previously. There is plenty of opportunity for the committee to consider the report in depth. The danger is that members will rush to scandalous judgments and pick out key aspects of the report that reflect their point of view.

As Mr Black said, the project's costs were within 1 per cent of the budget. That is hardly a scandalous dereliction of duty. The reported revenue benefit to Scotland of £10 million, although unaudited, is hardly a scandalous dereliction of duty either. Members need time to reflect on some of the lessons that have been learned from the project before rushing to judgment on some of the conclusions that have been drawn.

Mr Black: I am responsible for the timing of the publication of all reports in my name. There are two factors to bear in mind in relation to this report. First, members of the team had to work hard to allow me to lay the report before the summer recess; I am grateful to them for that. We have been up against a time limit.

My second point is more significant and relates to general policy. From time to time, I must make reports on matters of some controversy, either in the Parliament or in public. As soon as a report is laid before Parliament on my behalf, it is a public document. If the report had been available in time to release with the agenda, for example, there would have been a significant risk of media coverage and speculation in advance of the opportunity that I have been given to present the report to you and to answer questions. It is right that the first audience for such a report should be the Parliament and the relevant committee; that is the procedure that I followed in this case. The disadvantage of that approach is that members do not have an opportunity to read the report in advance, but I am happy to appear before the committee at any time for it to consider it further. It is important that the Parliament, rather than the media, should be the first port of call for such a report.

Willie Coffey: I accept that explanation, but committee members are poring over the pages as we sit here, trying to pick out noteworthy points. It is difficult to do that when particular items stand out. The balanced overview that the Auditor General gave earlier painted a slightly different picture from that which some members have chosen to portray by picking out particular items, although it is entirely up to them to do so.

I hope that we will get such a detailed and thorough analysis of the shambles and dereliction of duty that is going on in the Edinburgh trams project when the Auditor General comes to consider that.

The Convener: Hear, hear.

George Foulkes: By the SNP, you mean.

The Convener: I think that George Foulkes wants to come in, but first I want to confirm some of the figures. We are talking about £490,000 of public funding, £382,000 that was written off by public organisations and £344,000 that is owed to private creditors. Is that correct?

Mr Black: That is correct.

The Convener: So we are talking about £1,216,000—most of which is public, and £344,000 of which is private—for an event that was, according to all reports, largely ignored by the Scottish public. Those figures are accurate.

George Foulkes: I am not clear on this: is there a plan to hold another one of these events?

The Convener: I believe so, but I do not think that the Auditor General can go into that. If we decide to do anything, we can ask ministers or officials.

George Foulkes: The Auditor General has made recommendations for the future.

The Convener: We can take that up with the Scottish Government.

Anne McLaughlin: In his response to Willie Coffey, the Auditor General said that the team had worked hard to publish the report before the summer recess. Why did it have to be published before then? I too am finding it difficult to read the report—which is no doubt very good—while I am sitting here. What was the rush?

Mr Black: All our reports are produced as speedily as we can manage, so that the Parliament and the public can get whatever assurance we are able to provide. This report was no different from any other in that respect.

George Foulkes: We are having an attack on the Auditor General.

The Convener: No, we are not going to get into that. Points are being made and answered. Is there anything else that has not been covered?

Cathie Craigie: The Auditor General mentioned that his team had not had time to validate the EKOS report. Does he plan—or have the power—to examine that report? The EKOS report said that the gathering generated £10.4 million of additional tourism revenue, so it should have run at a profit. That raises more questions around it.

The Convener: Our colleagues in the Economy, Energy and Tourism Committee are undertaking an inquiry into homecoming Scotland 2009 and the gathering. I assume that they will have the opportunity to go into the detail of the EKOS report, which tries to put a nice gloss on what has been a financial disaster. We will leave it to that committee to pursue the matter. Is there anything else?

Anne McLaughlin: I understand that the reports are produced as speedily as possible, but was the Auditor General asked specifically to have this report ready before the summer recess?

Mr Black: No—the decision was entirely mine. The alternative would have been to hold off the report until after the summer recess. In view of the interest in the matter in Parliament and the time lapse since the event, it seemed reasonable to attempt to get the report to Parliament before the recess. That gave me the opportunity to present it in the first instance to Parliament, rather than the matter continuing to run with much speculation in the media.

The Convener: I thank the Auditor General for the report, which we will no doubt come back to.

Audit Scotland (Annual Report)

12:40

The Convener: Agenda item 4 is the Audit Scotland annual report, on which I ask the Auditor General to brief the committee.

Mr Black: I will be very brief in view of the time.

Our "Audit Scotland Annual Report 2009/10" provides a summary of Audit Scotland's performance over the year and gives information on what we have done and on our financial performance. The report is, of course, a public document. After the summer recess it will, likely, be considered in some detail by the Scottish Commission for Public Audit, which examines our use of resources.

In the annual report, we try to capture how we have responded to the new challenging environment for public finances. In particular, it covers how we have looked to maximise the impact of our performance reporting and our financial audits to help public bodies both to improve quality of services and to do more with their money by finding lower-cost ways of providing current standards of service.

Measuring the impact of our work is an issue that we take seriously. That impact can be measured in many ways, on which the report provides some detail both through the narrative and through the case studies. Again, I would be very happy to answer any questions on that subject. I should mention in passing that the Public Audit Committee fulfils an important role in enhancing the impact and reach of our work by holding accountable officers to account on the basis of the reports that we present to the committee.

Very briefly, some of the key messages in the report are as follows. First, we produced 215 final annual audit reports for the financial year 2008-09, with 100 per cent of those being completed on time. I should emphasise that not all of Audit Scotland's work is reported directly to the Public Audit Committee, but we do very important work out there in the public sector in Scotland. Those 215 final audit reports, all of which are on our website, are supported by more than 880 separate reports on the 215 bodies that we audit. More than 97 per cent of local government bodies and more than 90 per cent of central Government bodies thought that our auditors provided a high-quality audit service. That is a reasonable standard, but we are always striving to improve as we go forward.

Secondly, we published 23 performance audit and best-value reports, many of which have been

presented to the Public Audit Committee. Much of that work is about helping public bodies to identify areas of improvement to help them to get through the current and future financial challenges. As committee members might recall, we are revisiting our programme of performance audits to ensure that it is relevant to the economic climate. We look forward to further contributions to that from the committee.

Thirdly, I want to mention the streamlining of scrutiny of public bodies, in particular of local government bodies. That streamlining is beginning to deliver results. In 2009-10, Audit Scotland carried out the first joint reviews with other scrutiny bodies and we piloted our plans for more streamlined and targeted best-value audits of local authorities. That work is currently being rolled out.

Fourthly, I am pleased to say that Audit Scotland was named the 52nd best place to work in the public sector in the whole of the United Kingdom by *The Sunday Times*. Its review, which is quite a robust exercise, said that we provide staff with

"interesting work in a friendly, supportive environment"

and that our colleagues are proud to be doing a job that aims to improve public services. We take some satisfaction from that.

Finally, we presented to 39 seminars, conferences and training events and we received nine groups of overseas visitors. In addition, we served on more than 50 external bodies and working groups. Much of that work might not be immediately evident or transparent to the committee, but we make a significant contribution and impact in those areas.

I am very happy to answer any questions and to provide any further information.

12:45

The Convener: I thank the Auditor General for that report. I think that I speak on behalf of the whole committee when I commend the Auditor General and the staff of Audit Scotland for the quality of the work that they have done over the past year. The reports that we have received have been of exceptional quality. Your work has aided the committee's work and benefited the Parliament. However, what is more to the point is that your work has been of enormous value to taxpayers in ensuring that their money is used effectively and properly. I would find it hard to overstate the value of the work that Audit Scotland does, for which I thank you.

You touched on a couple of issues in your report that have been frustrating to members of all parties—for example, you spoke about the significant amount of work that you do on local

government issues, which does not come to this committee. However, committee members wanted to look at some of the issues that were reported in relation to Strathclyde Partnership for Transport, but we were unable to do that. Maybe Parliament needs to debate in the future whether, when there are significant issues of public concern, the remit and scope of the committee should be re-examined so that we can give proper recognition to Audit Scotland's work. I am not convinced that the work that you do for some other parts of the public sector receives sufficient scrutiny, which is a pity.

We thank you for everything that you have done. Are there any comments from committee members?

Bill Kidd: I would like very much to thank the Auditor General and his whole team for all the work that we have been presented with and the very comprehensive outline in the report of what has been carried through.

I have just a wee question. I know that you are not an educational body, but in order that other public bodies that spend public money get it right and do not have to be reported to the committee, is there a function whereby they can approach Audit Scotland for help in developing their expertise?

Mr Black: Barbara, would you like to say something about how we follow up on our reports and interact with the audited bodies?

Barbara Hurst: Yes, I would be happy to do so. I am thinking more of the work that we do around technical advice to our auditors, which is also available in bulletin form to all audited bodies. That is definitely one area of interaction.

We are very keen to share our experiences. We have a very active programme of bringing in people to train them on the Chartered Institute of Public Finance and Accountancy qualification. Our hope is that some of those people will go out into our audited bodies and take an active part in managing public services, as well. We are very proud that a couple of our trainees recently got awards in their CIPFA exams.

On follow-up and trying to promote good practice—it was interesting that the committee asked Dr Woods about that earlier—we have just started trying to promote good practice through our own website. We are actively trying to follow up all our performance audit work to ensure that, if we find good practice, we try to promote it elsewhere. As Bill Kidd said, we are not an educational body, but we recognise that we have a role in promoting good practice.

Mr Black: Perhaps one other fact that the committee might be interested in is that we have

recorded not far short of 300,000 inquiries to our website, which is really very substantial. It is also noticeable when we do our impact reports that some of them are downloaded a great deal once they have been presented to Parliament. They are clearly being used out there in the public sector, which is encouraging.

George Foulkes: I just want to reinforce what the convener said about the competence of Audit Scotland's staff and the quality of the reports. There is also the fact that the Auditor General and his staff always maintain their integrity and independence, even when the Auditor General sometimes does not give me the answers that I would like.

Anne McLaughlin: I echo what everyone else has said; I have said it before, too. I am not surprised that you were named the 52nd best place to work in the public sector in the United Kingdom. Remember, if ever I need a job, I would like to work for the national fraud initiative.

You mentioned a figure of 300,000. Was that the figure for inquiries or visits to the website?

Mr Black: There were 300,000 hits on the website.

Anne McLaughlin: I thought that you might have meant that there had been 300,000 downloads of the report.

Willie Coffey: Over the years, many bodies have sat across the table from us. A common question that we have asked them, with regard to the Auditor General's work, is how they evaluate the benefits of their services to the public. How do you apply that process to yourselves?

Mr Black: We have devoted a lot of time and thought to that and have had a number of conversations with the Scottish Commission for Public Audit around that matter. Essentially, we have tried to use the model of public value to identify where we add value in the Scottish public sector and we have tried to try to develop an impact and reporting framework that reflects that. For example, in the report that is before the committee, you will see the result of quality surveys in local government and central Government that show how they value the work that we do.

In relation to the performance audits that we undertake, we consider an impact study. We review all the impact reports that we receive and try to learn lessons from them. We conducted an independent survey of how the best-value activity that was undertaken by Audit Scotland in the first round of best value was received by local government, and the results were pretty positive. We assess the impact and the quality of what we are doing in a number of ways.

I will address the issue of efficiency savings head on. To be absolutely frank, I would like to be able to give a more positive account of the extent to which we can audit efficiency savings. However, that brings us up against the role that audit can play and the role that management plays. It is for managers of major public services to provide the right sort of information that we can use and evaluate. It is quite noticeable that, with regard to reports such as the efficient government study, or even a piece of work such as our orthopaedic services report that the committee considered recently, in relation to which we thought we were going into a data-rich environment, a large amount of the time and effort is taken up by attempts to get decent data. That is recognised by Government, so we are all on a journey together in that regard. However, it means that, often, the answers that I bring to the committee regarding the validity of efficiency savings, for example, are less complete than I would wish.

The Convener: As there are no other questions, we will move on to the next item on the agenda.

Section 23 Report

“Using locum doctors in hospitals”

12:53

The Convener: The final item in the public part of our meeting concerns a briefing on the section 23 report, “Using locum doctors in hospitals”. However, we still have a couple of items to deal with in private session this afternoon.

Given what we said in our previous item of business, I do not want to do the Auditor General and his team a disservice by hurrying through this item of business. If members want to take the briefing today, we can do that. However, we could postpone the discussion until our next meeting, in September. Do we agree to do that?

Members *indicated agreement.*

The Convener: In that case, we will move to item 6, which we will deal with in private.

12:54

Meeting continued in private until 13:02.

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