



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### **PUBLIC AUDIT COMMITTEE**

Wednesday 29 June 2011



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**PUBLIC AUDIT COMMITTEE**

**2<sup>nd</sup> Meeting 2011, Session 4**

**CONVENER**

\*Hugh Henry (Renfrewshire South) (Lab)

**DEPUTY CONVENER**

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

**COMMITTEE MEMBERS**

\*George Adam (Paisley) (SNP)

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Willie Coffey (Kilmarnock and Irvine Valley) (SNP)

\*Mark McDonald (North East Scotland) (SNP)

\*Tavish Scott (Shetland Islands) (LD)

\*Drew Smith (Glasgow) (Lab)

\*Humza Yousaf (Glasgow) (SNP)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

John Baillie (Accounts Commission)

Angela Cullen (Audit Scotland)

Barbara Hurst (Audit Scotland)

Fraser McKinlay (Audit Scotland)

Gordon Smail (Audit Scotland)

Carolyn Smith (Audit Scotland)

Claire Sweeney (Audit Scotland)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

Committee Room 2



## Scottish Parliament

### Public Audit Committee

*Wednesday 29 June 2011*

[The Convener *opened the meeting at 10:02*]

### Decision on Taking Business in Private

**The Convener (Hugh Henry):** Good morning. I welcome everyone to the second meeting in this session of the Public Audit Committee. I remind everyone to ensure that all electronic devices are switched off.

I turn to the first item on the agenda. Do we agree to take item 5 in private?

**Members** *indicated agreement.*

## Performance Audits (Programme)

10:03

**The Convener:** The second item on our agenda is a contribution from Audit Scotland on its forward programme of performance audits. The Auditor General for Scotland cannot be with us today, but I welcome two stalwarts of Audit Scotland who come to the committee regularly: Barbara Hurst and Angela Cullen.

Would Barbara Hurst like to say anything by way of introduction?

**Barbara Hurst (Audit Scotland):** Yes, please, if that is possible. I have to say that we are stepping into the Auditor General's shoes, but they are rather large for us.

For the benefit of new committee members, it is perhaps worth saying a little bit about the work of Audit Scotland to put our programme of performance audits in context.

Audit Scotland carries out a range of work for the Auditor General and the Accounts Commission. We call that work, in its entirety, our public audit model. It includes the annual audits of public bodies, a programme of performance audits—information about which we bring to the committee today—best-value audits of local government, reports on the national fraud initiative, statutory reports when problems have been highlighted through the accounts and, of course, overview reports on major sectors. It is important to outline that range of work because the performance audit programme is just one strand.

The paper that we have given the committee today outlines our proposals for our forthcoming programme of performance audits. Each year we identify new topics for audit. We highlight areas on which we will keep a watching brief, which we may well audit in the future. In arriving at those topics, we use a range of information from all our audit work. We analyse the risks and priorities, and try to ensure that the programme is balanced across all the portfolios so that we do not hit individual bodies too much in any one year.

Importantly—this is partly why we are talking to the committee about the programme today—we talk to key stakeholders about what they view as the key risks that they would like us to examine. The performance audit programme is underpinned by five strategic themes, which we have outlined in the briefing paper. I will not restate them because I cannot remember them all, but they are important because they help us to focus on the areas of greatest risk, and we want to ensure that we target our resources most appropriately. It is fair to say

that that work is as much an art as a science: we could look at everything, so we try to focus on the really important issues for Scotland.

Audit Scotland is in a unique position because we audit across the public sector in Scotland, which puts this committee in a powerful position too. For example, we can look at performance in the national health service by examining the implementation of policy at a local level. Our "Review of Community Health Partnerships" report, which we will discuss later in the meeting, gives some indication of how we do that.

We aim to have a fixed programme of work for one year only, because the pace of change in the public sector is so fast that if we extend the programme for longer than that we run the risk of being irrelevant or reporting too late on some of the big issues.

In the paper we have, for completeness, given in the first column our current programme—the reports that we will bring to the committee in the financial year 2011-12. The second column contains the topics that we think are of value for us to start on in the autumn, for publication in 2012-13. The third column, which is the longest, contains the topics on which we will keep a watching brief and bring audits forward as and when issues arise.

The Auditor General and the Accounts Commission are the final arbiters of what we include in the programme, but they are both really keen that we engage with stakeholders. I know that the Auditor General particularly values engagement and discussions with this committee about what should be in our programme. He has asked us to say that he would be happy to meet the committee informally to discuss the proposals if that would be useful.

I am happy to take questions on or suggestions about the programme.

**The Convener:** Thank you. I have a couple of questions about the current work programme. First, can you tell us a bit more about the justice overview? How wide ranging will it be? Are you considering issues such as legal aid and the implications of the changes that the recent Cadder decision brought about? What are the parameters?

**Barbara Hurst:** I will ask Angela Cullen to tell the committee about that, as she is overseeing the report.

**Angela Cullen (Audit Scotland):** It is quite a wide-ranging review—that is obvious, as it is an overview. We have tried to narrow the scope to the extent that it covers the adult criminal justice system in Scotland, but it looks at all the bodies in that system, how much they spend and their

performance, and it considers some of the issues that may be examined in future. To some extent, it looks at summary justice reform and how the decisions that the Parliament has made about summary justice in the past 10 years have manifested themselves in the criminal justice system.

We hope that, with all our overviews, we can identify at least another two or three potential performance audits in which there would be real value in drilling down and looking at things in more detail. At this stage, we know of at least two or three such audits but this is simply an overview of the system.

**The Convener:** What about legal aid?

**Angela Cullen:** It is in there.

**The Convener:** Have you examined the issue of legal aid in civil cases?

**Angela Cullen:** No. We have narrowed our focus down to criminal justice.

**The Convener:** Okay. What about the interface and overlaps between the different agencies? In recent years, concerns have been expressed about high rates of reoffending and the system's ability to prepare prisoners properly for release. If some of the trailers for the Christie commission report are to be believed, it is beginning to focus on something that all of us have known for some time, which is that early intervention and expenditure often lead to greater savings in the longer term. With regard to the criminal justice system, we know not only that huge amounts of money are being spent on imprisonment but that people who are not prepared for release or given proper rehabilitation reoffend very quickly. Are you going to examine the money that we are spending on preparation for release, on rehabilitation and on monitoring those who have been released?

**Angela Cullen:** I do not want to give away too much of the report before we actually publish it, but I can tell you that it looks at all the bodies that work together and where they overlap. We are also looking at reoffending—after all, reducing reoffending is one of the adult criminal justice system's performance indicators—and we are attempting to identify the spend on reoffending compared with spend in the rest of the criminal justice system. I think, therefore, I can say that, yes, we intend to cover the areas that you have highlighted, although perhaps not to the level of detail that you might suggest. We might well follow up those issues in an individual performance audit at a later date.

**The Convener:** Sticking with the current programme, I want to move on to the Commonwealth games, which is a topical item this week. In the previous session, the Public Audit

Committee expressed concern about certain management practices in the governing body, particularly in relation to pension issues, and worries over the development of some of the infrastructure in the Commonwealth games village. Will the current programme consider previously highlighted issues, and will there be a progress report on the concerns that have already been raised?

**Barbara Hurst:** Yes. We are just at the scoping stage, which will involve taking into account the committee's previous discussions and evidence sessions and building all of that into the follow-up work. We will be looking at those issues, but we may well consider new ones.

**Humza Yousaf (Glasgow) (SNP):** Thank you for the overview for new members. I cannot speak for all of us but I, for one, found it particularly interesting and useful.

I am trying to get to grips with a few things in the current programme, which I note includes a report on

"Scotland's public finances: addressing the challenges".

Is that a follow-up to a previous report? Given that some of the other reports mentioned in the programme seem more narrow and focused, that topic seems extremely wide. Are you taking a particular angle on the subject?

**Barbara Hurst:** The Auditor General published quite a high-level report on Scotland's finances that captured some of the risks associated with the current economic climate and the ways in which public bodies needed to respond to it. This report, on the other hand, very much focuses on what public bodies are doing to prepare themselves, given that we know what the current economic climate is. For example, what mechanisms are they using to reduce costs and redesign services?

The report has been quite a big exercise, because it looks across the public sector at health boards, councils, central Government and public bodies. We are just trying to get a feel for what is going on. It is quite early to do that, and things might have progressed since we captured the data. The report provides a baseline and involves taking the temperature of what bodies are doing.

We should not have used shorthand to describe it but, in the forward programme—I am now giving things away—we propose to consider one issue that is coming through from that work, which is how workforce planning is undertaken in the current climate.

10:15

**Humza Yousaf:** I have another question, although I will not hog the microphone. You have

made it obvious and clear that you engage with stakeholders. How about the general public's concerns? I am sure that all committee members are already receiving e-mails that say that the committee should examine this, that and the other. How do you guys in Audit Scotland engage with the public? Does that happen regularly?

**Barbara Hurst:** The consultation is quite detailed. Consulting the public sector is easy. We have a specific stream of consultation on equalities. We are keen to pick up such issues, because much of our work concerns service users. We have a mechanism for engaging—largely through the voluntary sector—with service users.

The question is interesting. We are keen to cast our net as widely as possible. We put all our consultations on our website, but you are right—we need to think a bit more about how we elicit a dialogue with the public. We are considering standard issues such as trying to get a bit more coverage in some of the main newspapers or *Holyrood* magazine, although that has a particular audience. We are keen to hear from anybody. If you have suggestions about how best to do that consultation, we would welcome them.

Of course, we also receive much correspondence. I did not mention that earlier, but that is a key way in which we know what concerns people. In that respect, we are in the same boat as members.

**Tavish Scott (Shetland Islands) (LD):** Good morning. The convener made a point about the Christie commission. The sentence from the commission that jumped out at me this morning was:

"It is estimated that as much as 40 per cent of all spending on public services is accounted for by interventions that could have been avoided by prioritising a preventative approach."

I am sure that Audit Scotland has been involved in the commission's deliberations. Do you recognise that general line? Forty per cent of £30-plus billion is a heck of a number. As part of your work programme, how will you take forward Christie's recommendations not just to the Government but to Parliament?

**Barbara Hurst:** We do not recognise the figure, although I would not be surprised if what you quoted is the case. We have never tried to calculate the figure. Much of our work—particularly on social care and community health services—looks at the preventative angle. Our programme refers to a watching brief on intervention in the early years, which has been in the programme for a little while. We started to try to scope work on that, but it was hard to find something to audit, largely because many preventative projects are on

a small scale. We need to consider how we can build the issue into all our work rather than try to do something on preventative services, which would be hard to scope.

Investment is one of the five themes that we try to pick up in every audit. The investment theme concerns not just major capital investment but how people invest in services to save money further down the road. That is an interesting point that we might pick up in our discussion of the CHPs report, in which a clear issue is that, if services are provided earlier—particularly for older people at home—perhaps we will not prevent people from having to go into hospital but we will certainly maintain their quality of life for longer in the home setting.

That is a long-winded way of saying that we are interested in this area. We might have a conversation with the community planning people who came up with that figure, because it would be interesting to know what they are calling “preventative” and what they are calling “reactive” or “emergency”. We are very interested in the area and, given that the committee is interested in it too, I am sure that the Auditor General and the Accounts Commission will be keen for us to pursue it.

**Tavish Scott:** Why do you not recognise the 40 per cent figure? Did you say that that is not a calculation that Audit Scotland has made in 12 years of accounting for public finances in Scotland?

**Barbara Hurst:** Yes.

**Tavish Scott:** So you are interested in understanding how the Christie commission came up with it.

**Barbara Hurst:** Yes, absolutely. We are beginning work on an overview of the money that is going into some of those preventative services. We know that some fantastic services that are working with young people have saved money, and not always on a small scale. One in Glasgow has probably saved the health service quite a lot of money because of its work on knife crime. It has done some very intensive work and it looks as if it is fantastically successful. We are keen to build in some learning from some of those pilot projects.

**Tavish Scott:** Yes, but 40 per cent of £30-plus billion is an enormous number.

**Barbara Hurst:** I know.

**Tavish Scott:** Some of us have tackled the issue in the past—previous Governments carried out exercises that did not get to the bottom of it. Audit Scotland must be interested in the area because, as you have said in other reports and as you said earlier, the challenge to finances is so enormous.

My second question will be brief. Your current programme refers to work on reducing greenhouse gas emissions, and under the “To keep under review” heading in your paper is work on climate change duties. I agree with that; all political parties talk the talk on climate change, and we have all made much of the Climate Change (Scotland) Act 2009, which went through Parliament during the previous parliamentary session. However, the Parliament has never done much of a job of going back and asking about when legislation starts to mean something in a policy area. Is it appropriate for the current programme to look at reducing greenhouse gas emissions in the context of the 2009 act?

**Barbara Hurst:** Yes. We are close to drafting a report on the work on reducing greenhouse gas emissions that is being done, and it will look at the central response to the 2009 act and the actions that have been put in place to achieve ambitious targets.

On the climate change duties that we have under the “To keep under review” heading, we are keen to follow through the work with the Scottish Government. Further down the line, we will look at how all public bodies are responding to their climate change duty, but we felt that it was too soon to do that just yet because the duty has only just been placed on them.

We are keen to keep an eye on some of the big commitments that will have financial implications, to see how they play out over time.

**The Convener:** I come back to the first point that Tavish Scott raised about the 40 per cent, which, as he said, is a huge figure. In your future work programme, will you audit or scrutinise that figure to see whether it can be substantiated and, if so, will it influence what you do? Alternatively, will we just have to accept it at face value?

**Barbara Hurst:** I am hearing a very clear message that the committee would like us to do something on that. We should talk to the people who have come up with that figure and do some work ourselves, not to rubbish it, but to understand how they came up with it. That would be a useful exercise for us, although it would be difficult—I am not saying that it would be easy. Perhaps we should have the conversation first, do some work and then come back to the committee with what we think is the ballpark figure.

**The Convener:** That would be helpful. Thank you.

**Murdo Fraser (Mid Scotland and Fife) (Con):** Good morning, and welcome back to the committee.

I have a couple of unrelated questions. Earlier, the convener asked about the upcoming



Commonwealth games—we are due to get the second position statement in November, I think.

**Barbara Hurst:** I think that it will come out just after the new year.

**Angela Cullen:** It will come out in March.

**Murdo Fraser:** The management of ticket sales is an interesting aspect of the London Olympics. When the committee looked at the previous reports on the Commonwealth games, Audit Scotland raised concerns about how ticket sales would be handled. The committee expressed concern that some of the projections might be somewhat overambitious. Whatever view one takes of ticket sales for the London Olympics, there is no doubt that the exercise has been a huge success in terms of raising revenue—whether it has been a huge success in terms of public reaction is a different issue, but it has been remarkably successful in meeting its targets for ticket sales. Will you look at that issue specifically to see whether lessons can be drawn from the London Olympics experience?

**Barbara Hurst:** Ticket sales are certainly on our radar, because of the interest that the committee showed previously. We have good relations with the National Audit Office in England, which has done a lot of work on the Olympics, so we will discuss with it whether we can learn anything from that process. I do not know whether the NAO has looked at the ticket sales process. Does Angela Cullen know?

**Angela Cullen:** Yes, I think that the NAO has looked at that process. We will speak to the NAO shortly as part of the research for our audit. Last time, we drew comparisons with other Commonwealth and Olympic games, and we intend to do that again. Because the Olympic games in London is very live at the moment, we will certainly do those comparisons.

**Murdo Fraser:** Okay. It will be very helpful to see that information in due course.

My second question is completely unrelated to the first. The forward work programme indicates that you plan to do work on renewable energy, including looking at issues around the subsidy regime. One issue that is live at the moment—I dare say that it will become even more important next year—is rising energy bills. Will you consider the impact that renewable energy subsidies have on energy bills?

**Barbara Hurst:** Would you like us to look at that area?

**Murdo Fraser:** I think that it would be interesting for you to do so. The way that energy bills are rising is a matter of serious concern, and people are not always aware that there is a

connection between the subsidy regime and the electricity costs that they pay.

**Barbara Hurst:** Okay, we can build that into our programme.

**The Convener:** I will follow up on that point. One thing that confuses me is the plethora of information provided both for and against renewables. Instinctively, I think that going for renewable energy is a fantastic idea, but I cannot be the only one who is confused by what is said. At one point you read a report that says, “This is the way forward: it is proven, and the statistics and evidence all show that.” You then hear someone else say, “No, the cost of renewable energy cannot be justified. There are issues of sustainable and consistent delivery of energy, and the cost of subsidy for wind turbines is enormous.”

Is that an issue that you have looked at, or is it one that you will look at? If we are talking about investing huge amounts of public money in something that most people would suggest is a good thing, surely we should be doing that on the basis of factual and proven evidence. Does Audit Scotland have a role in that process?

**Barbara Hurst:** We are in the fortunate position of having someone who knows all this stuff inside out, who will lead on the project.

As you know, convener, we try to provide objective evidence that cuts through some of the polarisation of the debate. We will certainly try to do that through this piece of work.

**The Convener:** It would be helpful if we could have an objective opinion on whether the subsidies that are going into things such as wind farms are justified and whether the output from wind turbines and other forms of renewable energy is as claimed, whether renewables make a valid contribution and whether there are gaps. I know that it is perhaps not for you to suggest that there are gaps in energy supply, but I would be interested to know a bit more if there are cost implications of following a particular strategy.

**Barbara Hurst:** One note of caution is that we would not comment on any policy implications. We will look at some of the evidence.

**The Convener:** Absolutely.

10:30

**Drew Smith (Glasgow) (Lab):** I will not add to your programme, but I have a couple of general questions.

First, how are you considering service delivery in the third sector? That point arises from Tavish Scott’s comments. Previously, I worked in health improvement in the third sector. With changes in how local authorities deliver services, fantastic

amounts of money are being spent by organisations that are no longer strictly subject to the kind of audit that you guys do. What is the direction of travel on that?

Secondly, what does a “watching brief” involve, particularly for the organisations that might be subject to it? How aware of that are they? What is the impact on them? Do you work purely on information that is already in the public domain?

**Barbara Hurst:** On service delivery in the third sector, I will ask Angela Cullen to talk a little bit about what is coming through around Scotland’s public finances, because it is clear that there is a risk. We do not audit the voluntary sector, although, of course, we look at the large sums of public money that it might receive. That is our way in.

We are doing a number of pieces of work in areas in which the third sector is an important player. For example, there is work on commissioning social care in relation to which we clearly have to consider the voluntary sector’s role. Where that sector is a big player and receives big sums of public money, we will include it in the audit.

The voluntary sector is fantastically helpful to us in facilitating our access to groups of service users who can give us a front-line view of what it is like to receive services and things that get in the way of service delivery.

We have advisory groups for all our projects. We take people from different walks of life, from experts in the field through to people who use the services. That is a powerful way of ensuring that their voices are heard in our work.

Does Angela Cullen want to say anything before we move on to watching brief issues?

**Angela Cullen:** I will be brief. We have considered the third sector in our second piece of work on Scotland’s public finances. Obviously, we have considered the potential impact on the third sector of the squeeze on public sector budgets. However, the more important point is that this is about doing things differently, including through the third sector. We touched on that in our second piece of work on Scotland’s public finances, and we are looking for good examples of where that is happening.

**Barbara Hurst:** The phrase “watching brief” is obviously our jargon. I apologise for it; we desperately try not to use jargon. When we say that we will maintain a watching brief, we mean that we will use a number of activities to do so. I said that our financial audit is part of the public audit model. Every public body has an auditor, and part of the watching brief activity will be carried out through that activity. If there is something big, the

auditor will keep an eye on it, and we will be in dialogue with them on whether we should escalate work into a national report.

We also maintain a watching brief through our own team. Responsibilities for the big policy areas are allocated to individuals—their responsibility is to keep an eye on everything. That might mean that they will go out and talk to different people or it might mean that they will keep an eye on all the policy development in the area. Therefore, we have different ways of keeping an eye on things, and obviously, we talk to people in the public sector.

One reason for mentioning a “watching brief” in our list is to ensure that everybody whom we will audit knows that there are some things that we are very interested in.

**The Convener:** This question might be more relevant for John Baillie, who will give evidence later. There are a number of organisations that are not strictly speaking voluntary organisations but are arm’s-length bodies set up by local authorities. There has been recent publicity about Glasgow, but it is by no means unique. Where do those bodies fit into the public audit process? They are set up to be legally separate from local authorities, so they are not strictly speaking caught up in “An overview of local government in Scotland 2010”, but they have responsibility for significant sums of money. No doubt there is internal auditing and a legal audit process that they have to follow, but from the point of view of carrying out public scrutiny through the audit process, where do they fit in? Does the local authority do that auditing? Given that they are independent arm’s-length bodies, I think that that would be difficult. Does Audit Scotland do it? Can such audits come back to the committee? By setting up arm’s-length organisations, do councils in effect take huge areas of public expenditure away from public scrutiny?

**Barbara Hurst:** I will do a body swerve on that question. The Accounts Commission has just published a report on arm’s-length organisations in its “How councils work” series. We are happy to deputise for the Auditor General on this occasion, but given that the chair of the Accounts Commission is sitting behind us, I think that he can answer your question.

**The Convener:** Okay. I will ask him. Thank you.

**Mark McDonald (North East Scotland) (SNP):** I have a couple of questions. I note that telehealth is in the current programme and that telecare is to be kept under review. What is the rationale behind separating the two? I would have thought that there would be a number of cross-cutting themes there. For example, issues might arise in the telehealth audit that could lead to a review of

telecare being accelerated into the forward programme, rather than just being kept under review. What was the rationale behind separating the two, rather than doing a joint audit of the two systems?

**Barbara Hurst:** That was very much a pragmatic decision about the art of the possible. The focus on telehealth is very interesting: it is about looking at the savings that might be generated in the acute hospital sector from using technology in different ways. When we were scoping it, we had a conversation about whether we should do the bigger theme, but that would have got us into quite complicated crossovers. What we really wanted to do was see whether there were any potential savings from using technology more smartly in the acute sector. Having said that, in the scoping exercise that we did, a number of themes around telecare emerged, but they related to the community setting. We did not want to lose them. The sums of money involved were not huge compared with some of the other things that we are looking at, but they are still important to people's lives. We could have combined the two themes, but the honest answer is that it was easier to just look at telehealth, because we could really focus in on the money relating to that strand of activity. It was a judgment call. It might be that we made the wrong judgment, but that is how we made it.

**Mark McDonald:** Time will tell, but hopefully you did not make the wrong judgment.

You talked about human impact in relation to the things that are to be kept under review. You said in your presentation that the things to keep under review are things that you would accelerate to audit if issues arose. Obviously you cannot audit everything on the basis that issues might arise, but equally with some of the items to keep under review, such as crime prevention, community safety and young people leaving care, if issues arise before an audit takes place, there is a human impact that it is difficult to redress for those who have already suffered as a consequence.

In assessing whether to keep an item under review, what kind of risk matrix do you use? I know that we are looking at following the public pound, but we have to be aware of the human impact that a lot of these services have. Does that factor into the risk matrix when you are deciding what to audit and what to keep under review?

**Barbara Hurst:** Yes, absolutely. I hope that what is coming through is that the programme of performance audits is not a dry, technical programme that just looks at technical process issues around money. The bulk of the money that is spent in Scotland is spent on services for people, and that is very important in what we do.

On the issues that you highlighted, we did something on residential care services for children—I cannot remember when we published it. The Public Audit Committee took a big interest in that and took evidence on it. Some issues clearly arose from that work, but the feeling at the time was that there would be no further value in audit stepping in and that, actually, people had to go away and do things.

Again, the judgment is about how long we give people to improve services and make things happen before we go back in and audit, because there is no value in simply going back in and saying the same things again. All those factors are taken into account, which is why I said that it is an art and not a science.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** First, I declare an interest as I am a local councillor. That will be particularly relevant when we come to the item on local government later on the agenda.

It is nice to see you both again. I have two questions. The first is a broad question about the overall programme, then I have a specific follow-up question. You will be aware that, in the previous session, after receiving your reports and reading the recommendations, members were always concerned to find out how and whether any follow-up was done and whether your recommendations were ever implemented by anyone in the public sector. That is of interest to the current committee, too. Do you have any views on how you could help to close that loop? Could that be part of your future work programme, or do you see it as best done by the committee and the public bodies that you audit?

**Barbara Hurst:** Angela Cullen will help me out on the specific reports that we are following up at the moment, but we are aware that, when we publish a report, it can be that it goes out there and we get a lot of publicity, but nothing happens. We are also aware that the committee is interested in follow-up, because you have asked probing questions of us in the past. We are trying to build in a systematic approach to following up some key reports. You will notice that we have put a few of them into a column of reports that we will follow up on a national basis. This year, there are also some that we have mandated all our local auditors to follow up locally. Angela Cullen will have to remind me which three those are.

**Angela Cullen:** Some members of the committee might remember them. We specifically selected three reports that were published two or three years ago as we would expect improvement to have happened in that time. We have asked the auditors to follow up the reports on improving purchasing through collaborative contracts and the result of the McClelland review, which happened a

few years ago; waste management in local government; and the use of consultants, by which we mean management consultants and not NHS consultants, and consultancy services. The latter report was on central Government, but it is equally applicable to all three sectors and the recommendations could be applied elsewhere. Those are the three topics that we have asked the auditors to follow up. Because those reports were published a few years ago, we would expect the recommendations to have been implemented by now, and changes to have been made.

**Barbara Hurst:** If the outcome of that work shows that everything is going fine, we probably will not do anything else, but if there are particular issues, we might well draft a national report on the back of that.

As you have probably noticed in our reports, we always include a checklist of things against which we expect local bodies to look at their performance. We are keen that our local auditors ensure that that is happening and that there are action plans on the back of it, so we have a mechanism in place for that as well.

**Willie Coffey:** That is really encouraging, convener. It might take some of the workload away from us, if we were thinking that we might have to step in and do that work, so that is helpful. On the checklists that you mentioned, is it too early to ask whether there is any evidence that bodies are using them, effectively or otherwise?

**Barbara Hurst:** We have done quite a bit of work to look at impact locally. We ask our auditors to let us know which bodies have used the checklists and what they are doing as a result, so we have some statistics—which, of course, have gone completely out of my head—about where they are used and whether there is just a paper exercise or whether they genuinely lead to changes in practice. We could certainly share information for some of the reports with the committee, because it is interesting to see how seriously different public bodies take the checklists.

10:45

**Willie Coffey:** That is very helpful.

**Angela Cullen:** I can add to that. As Barbara Hurst said, the auditors follow up on the checklists through the annual audits on the back of our reports. We produce impact reports on each of our performance audits. They are generally about 12 months after publication, but the timing may flex so it may be 14 or 15 months depending on what is happening—we keep an eye on the situation. We publish those impact reports on our website, so they are publicly available and everyone can see what has happened as a result of our reports.

**Willie Coffey:** That is excellent. My second question is on the ninth work package in the forward programme—on the efficiency of clinical services. You ask in the paper for a view on whether you should focus on maternity services or stroke services. My personal preference would be for you to concentrate on maternity services. Through my constituency case load, I am aware that there are a number of cases involving medical negligence in the birth of some children. There seems to be a rising cost. Is there any opportunity for you to look at that aspect and see whether any lessons can be learned and improvements made? It may be more of an interest to the Health and Sport Committee, but as the potential costs are significant I wonder whether you would want to concentrate on it.

**Barbara Hurst:** That is an interesting question. We have started to have conversations about some clinical services, and the professional view is that it would be better to look at maternity services because a lot has happened around stroke services. We would certainly be interested in the costs of medical negligence. We have a good working relationship with Healthcare Improvement Scotland. It may have done some critical incident reviews, and we would try to make use of any work that it has done on maternity and build it into our work.

Thank you—that is a useful contribution.

**Willie Coffey:** It would also be more helpful if the theme of the investigation centred on the user and how the service impacts on parents and children rather than strictly on managing the reductions in budgets and so on. Is that possible?

**Barbara Hurst:** Maternity is an interesting case. I was at a European conference a little while ago, where a colleague from Germany made a presentation on a review that they had done of maternity services. In true Teutonic fashion, they did a time-and-motion study and allowed six hours, I think, for throughput per woman. That felt quite tight. All I am saying is that we would not go down that road.

**Willie Coffey:** I am glad to hear it. Thank you.

**The Convener:** Okay. We shall try to avoid a diplomatic incident. [*Laughter.*]

**George Adam (Paisley) (SNP):** Good morning. First, in relation to local government, let me express the fact that I am also a local authority elected member.

I would like to discuss the community and patient transport review. As a local councillor, I know for a fact that there is a lot of crossover in the delivery of services for vulnerable adults, people with mobility issues and so on. The third sector obviously offers services, too. My second

point is that every penny is a prisoner in local government at the moment.

I am therefore interested in looking at the transport service. Could you give me any scope for the future as you see it? Where can we go and how can we develop it further after we receive the report? Transport is a vital service for a lot of communities and groups.

**Barbara Hurst:** That is an interesting issue. In the overall scheme of things, the service does not account for a huge amount of money, but we included it in the programme because it is so critical for people. Again, we had to make a judgment call. We have not included education transport in the report; we have focused on health and social care transport. We will publish on, I think, 2 August—sorry, dates do not stick in my mind—and we will bring that report to the committee at your next meeting. You will have an opportunity to think about whether to pursue the issue and whether you want us to do any further work. That will be the opportunity to look at the report, which has some interesting findings.

**George Adam:** I look forward to seeing it.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I, too, declare an interest as a local councillor.

The current programme includes a report on the modernising of the planning system. What is the scope of that? I am aware from my experiences that there are still considerable delays—sometimes of several years—in large projects coming through. Will that work focus on that aspect, or is it a broad approach in which you are looking at domestic planning and everything else?

**Barbara Hurst:** I ask Angela Cullen to pick up on that one.

**Angela Cullen:** We are quite far advanced with that audit, too, and we will publish the report in September. So, luckily, we already know the emerging findings in it. The work is looking at the impact of the planning legislation that was introduced in 2006 and how it has been implemented at local level. It is also considering performance on all planning applications, so it includes householder and major applications. We will also be looking at the money that is spent in the area. The report will certainly look at the timescale for approval of planning applications.

**The Convener:** One item that you say you want to keep under review is major transport infrastructure projects. Over the years, there has been controversy about major infrastructure projects. You mentioned the Edinburgh trams project, which I think will excite interest for some time yet. If you recall the history of that project, you will remember that Audit Scotland was

involved in 2007 in preparing a report. To an extent, that gave a financial envelope for the project and, if you like, gave encouragement to politicians to proceed. The trams report was a bit different for you, because you do not normally comment in advance on projects, but there is a precedent for that.

Thinking about the Forth replacement crossing and Borders railway projects leads me to the difficulty that, often, Audit Scotland is not involved until projects are way down the line and problems develop, by which time it is generally too late to influence significant change and we can only criticise what went on, rather than influence something for the better. It is not unfair to say that some people have serious concerns that the Borders railway is, frankly, a turkey that will never be financially justified and has the capacity to get out of control, not only in project investment, but in future subsidies. Increasingly, people are expressing concerns about the cost of the Forth replacement crossing and asking whether it is a replacement or an addition. Can Audit Scotland do some work at an early stage in the development of those projects to consider whether their financial justification is right and whether the on-going development and cost controls are being done properly? Is there a way in which the committee can examine some of those issues before major problems develop, rather than having to comment only after the problems are out in the public domain?

**Barbara Hurst:** There are two parts to your question.

On your latter point, that is almost the cutting edge of audit. As you say, audit really is retrospective. The committee may remember the report we brought to it on some of the major projects that were currently in the process. There are a few issues there. First, we must guard against audit substituting for good management. It is not our job to manage those projects. Nevertheless, some of them involve massive sums of money. If we do not take it seriously, we could be accused, as auditors, of just coming in at the end and bayoneting the wounded—I have heard that expression previously. Of course, we do not do that.

The Commonwealth games is an interesting model. We have a series of reports that we have programmed in to consider the games throughout the process. That involves looking at the governance and at the big issues that the Parliament will want reassurance about. It is difficult to answer in full because Bob Black, the Auditor General, is not here. However, our view would be that we may be able to do something similar with some of those major projects.

The most obvious project is the Forth replacement crossing, which involves a large sum of money. However, at the moment we are keeping the project in the keep under review column, because it is rather early days and there must be something to audit. The Auditor General would very much welcome a conversation with the committee about what we can legitimately do. I use the word “legitimately” advisedly, because as I said it is not our job to manage projects. However, it probably is our job to highlight risk for the committee.

**The Convener:** To take the smaller of the two projects that I mentioned, the Borders railway, whose job would it be to say that the figures that have been produced are robust, that the projections are accurate and that the project has a clean bill of health?

**Barbara Hurst:** Angela Cullen can come in on this. Our skills lie in knowing whether the process by which those figures were arrived at was sound. I am not sure that our skills would be in second-guessing the costs themselves.

**Angela Cullen:** No. We would expect the project manager—whoever is the senior responsible owner for the project—to do that. It is their job to ensure that the estimates are accurate and the project planning timetable is as accurate as possible. Although we would come in and, as Barbara Hurst said, look at the process for doing that, we would not go back and recalculate all the figures, because we are not construction experts. It is difficult for us to do that. However, we have a methodology for considering the processes. We have done it before and we have reported to the committee.

**The Convener:** Have you looked at the processes in relation to the Borders railway?

**Angela Cullen:** No.

**Barbara Hurst:** No.

**The Convener:** Will you?

**Barbara Hurst:** That is for discussion. It is why we have put it in the programme. We are consulting on whether we should be doing that. If so, we would need to think carefully about how we did it.

**The Convener:** Those of us who have responsibility for making decisions on legislation and finance need to be assured that the processes are correct, because we will get it in the neck if something goes badly wrong further down the line. I must confess that I have major reservations about that project. I would like to know whether the processes were properly followed and whether we are moving forward with a project that is sound.

11:00

**Tavish Scott:** I will carry on the convener’s line of questioning. The point about process is entirely fair in the context of Audit Scotland’s role. The private sector says that 10 per cent of the estimated project cost will be spent before a private sector project is finally signed off and sanctioned. Oil and gas provide the best example of that. I have been close to a couple of projects in the area recently, and the private sector’s observation to me about the public sector is that we do not help ourselves, because the Government of the day—whether it is local government or national Government—wants to make the big announcement about the total sum, when that is not the way to do it.

Is Audit Scotland pursuing hard the point about the process in the context of the project that the convener mentioned? The issue probably applies to all projects. There is a clear private sector approach to procuring projects over a certain scale, with no final agreement on the project until 10 per cent of the estimated cost is spent, to prove that the project can work in relation to capital and revenue. Do you have such discussions in the context of capital projects?

**Angela Cullen:** Such a process is not in place. It is a difficult decision to make; the public sector is quite different, because many projects need parliamentary approval before they can go ahead and I assume that there needs to be some sort of estimate of the project’s cost before parliamentary approval is given. The process is different, so I am not sure how the practice of going ahead with a project and spending 10 per cent before knowing the ultimate cost could be adopted in reality in the public sector. If the Parliament thought that such an approach was appropriate, the message could be relayed to the Government and the public sector, but the approach is not currently taken. We look at the processes that are in place for estimating costs—

**Tavish Scott:** I am well aware that the approach is not currently taken. I took bills through the Parliament two sessions ago and I would appear in front of parliamentary committees, guessing what the sum would be. I hold up my hands and say that that was not a good process. The area needs to be looked at in depth, because if we are to do public procurement of enormous projects—and for the Forth road bridge project we are potentially talking about £1.8 billion of taxpayers’ money—we have to be better at it. If the Parliament has to take a raincheck on knowing exactly what the figures are, thereby gaining more by achieving a real project cost, the Parliament’s interests and, more to the point, taxpayers’ interests will be protected.

**Barbara Hurst:** May I pick up on the point about the report that we did on the trams in 2007, just to get this on the record? Some of our findings have been slightly misrepresented in various places. We did a limited piece of work, which looked at the governance arrangements at that time. We did not look at a whole range of issues to do with funding, or anything to do with that. I wanted to put in context what we did on the trams at that time.

**Willie Coffey:** We have to be careful. As Barbara Hurst said, our role is not to step into the process and begin to manage projects for organisations. However, surely Audit Scotland's work and the feedback that is given must start to pay dividends in major capital projects, in the context of closing the loop and learning from mistakes. In Public Audit Committee meetings in the previous session of the Parliament, I recall that we said that we want more effort to be put into the early stages of project planning, to ensure that financial planning is rigorous and can stand up to scrutiny by whoever is involved in the project's management. I hope that the work will pay dividends in future, as projects are rolled out.

**The Convener:** Thank you. This is a suitable point at which to draw the discussion to a close. I thank Barbara Hurst and Angela Cullen for their contributions.

## Section 23 Report

### “Community Health Partnerships”

11:04

**The Convener:** For the next item, Barbara Hurst will be joined by her colleagues Claire Sweeney and Carolyn Smith. I invite Barbara Hurst to make opening remarks.

**Barbara Hurst:** This is the first performance audit report that we have published since the election. It is fair to say that it was a difficult piece of work, largely because auditing partnerships is difficult. As well as having to look at different bodies, the softer issues around culture, leadership and the like made it a challenging report.

It is a joint report for the Auditor General for Scotland and the Accounts Commission. Clearly, in order for health services and councils to make the best use of their resources, they need to work well together, particularly around health and social care. I understand that the Christie commission report, which is published today, also looks at some of those issues. In that context, our report is topical.

Community health partnerships were introduced under the NHS (Reform) (Scotland) Act 2004 as statutory committees or sub-committees of health boards. The legislation requires every health board to have at least one CHP for the area of the board. The audit looked at the 36 CHPs that were in place when we started the audit. The number of CHPs seems to change by the day, so Carolyn Smith may well have a more up-to-date picture of how many there currently are.

I will highlight a number of key issues from the report. Since devolution, there have been a number of initiatives to improve partnership working between health and social care. We had general practitioner-led local health care co-operatives, which moved into joint future partnerships. We had the introduction of community planning and we have CHPs. However, those approaches have been incremental, and we found that there is a bit of a cluttered landscape around partnerships for health and social care, which we think needs tidying up because it looks like there is some duplication. Having different partnerships all doing the same things is possibly not the best way of working in partnership.

CHPs were introduced with a very challenging agenda in that they needed not only to improve the links between primary and community-based health services and the acute health services, but to bring together health and social care services

so that people who use them can access them more easily. CHPs were expected to move care out of hospitals and into the community, and to improve quality of life for local people. Our report highlights that they have had varied success in meeting that agenda. However, it is fair to say that no one body could have done that on its own, anyway. That is why it is so important that all this joins up.

Essentially, there are two types of community health partnership: the health-only structure and an integrated health and social care structure. We found that, irrespective of the structure, effective partnership working depended on good local relationships, a shared commitment and clarity of purpose. A structural solution may therefore not be the answer, because lots of other issues need to be taken into account.

We recognised that partnership working can be difficult and that strong leadership is needed from both boards and councils for the effective joining up of health and social care. We found that the governance and accountability arrangements are complex and not always clear, particularly for those that are integrated structures.

Exhibit 1 in the key messages document sets out the key principles for successful partnership working that we believe all partners should apply. We certainly hope that boards and councils will find the principles useful in strengthening local arrangements. Around £13 billion was spent on health and social work in Scotland in 2009-10 and CHPs managed just over £3 billion of that, although that may well be an underestimate as it was quite difficult to pin down the resources.

We believe that boards and councils need a much better understanding of how they are using their combined resources—budgets and staff—so that they can continue to improve services. We know that the Government is leading a national project aimed at getting a much better handle on what shared resources go into services. We believe, though, that further work is needed to improve information at a local level on, for example, knowing your budget, your staffing and the outcomes for people. All that needs much more attention.

Not all CHPs have the strategic role that I outlined earlier. It is fair to say that few are able to influence the way in which resources are used across health and social care. There is also variation in the services and budgets that CHPs manage. It is important to note that we found that the level of engagement between CHPs and GPs and other clinicians needs to improve because the clinicians are the ones who are committing a lot of the resources.

CHPs have been given a key role in improving the health of local populations. We found many good local examples of that happening. However, there has been mixed progress in tackling some of the major challenges, and the Christie commission will be picking up on some of that in the report that it is publishing today.

Over the years—certainly since devolution—dramatic progress has been made in reducing the numbers of people delayed in hospital, but those numbers are beginning to rise again. The number of older people who are admitted to hospital a number of times is also going up. There are some issues around what needs to happen to make some of those indicators go in the right direction.

Joint working around health and social care is in the papers every day, so it is a matter of huge public interest and concern. The Christie commission's report will also address that, and I hope that our report will make a useful contribution to the discussion about how improvements might be made in that area. Everything that has happened, from the dreadful things taking place in care homes through to the care of older people on hospital wards, shows that the area is really important for public services and it cannot be taken lightly.

I will stop there. We are happy to answer any questions.

**The Convener:** You made a point about delayed discharges. Just this week, I have had another two inquiries from different constituents about elderly relatives being kept in hospital because funding is not available to allow them to be discharged into the community. It is a concern because of the finances involved, because it blocks valuable hospital facilities, and because of the anxiety and stress experienced by the elderly person and their family. It is also a concern because, when elderly people are ready to be discharged back into the community, it is not healthy for them to have a long-term stay in hospital. From family experience and from talking to others, I know that the level of service in care is not always what it should be. People are vulnerable to picking up all sorts of infections. Although our NHS performs miracles in keeping people alive in many circumstances, the long-term care of the elderly in our hospitals is not all that it should be. We really should be getting people back into the community.

The figures are now going in the wrong direction and it is a scandal. That is not too strong a word to use. Given what you have highlighted, do you see any evidence that some action will be taken to address that?

**Barbara Hurst:** Over the years, we have done a lot of work on services for older people. The



problems are not new; they are almost systemic in the way in which some services are organised. The key issue for us is that, if serious action is not taken, there will be a real risk that, given their financial situation, organisations will retreat more into their silos because they will have to manage reduced budgets.

We were trying to look at examples of different organisations sharing their resources. We wanted examples of a much more sensible conversation about how resources were used, rather than examples in which, when one organisation was ready to send a person over to another, that other organisation responded: "We've got no money, so they'll have to wait there."

11:15

I do not have a crystal ball, so I do not know whether changes will happen, but we cannot afford for something not to happen. I agree that hospital is not a good place for people to be if they do not need to be there, although, of course, some people do need to be in hospital. We hope that our report highlights that, rather than institutions retreating into their silos, the sharing of resources must be addressed, because that would be one way to ensure that individuals received the most appropriate care.

**The Convener:** What you say in the report about community health partnerships is, to be frank, a damning indictment of inefficiency and ineffectiveness throughout Scotland. Although you point out some good practice, the picture is largely very bleak. It is also worrying, given the level of resources that are involved and the implications that you outlined. Is the community health partnership structure capable of being improved?

**Barbara Hurst:** We tried not to see the situation as a structural issue—although, clearly, that could be the answer—but more to consider how we make the structure work, given that it is in place. It can be made to work through a genuine commitment to services for individuals, rather than—I was going to say "parochial", but that is the wrong word—protectionism.

Making it work needs a lot of different thinking about how resources are managed. We found that a lot of attention was paid to governance and accountability. Those are, of course, important—we are auditors, for goodness' sake—but Bob Black would certainly say that they are second-order issues and the main issue is the service. If we want the service to be good, we can make things work. We can put in place the governance and accountability that would make it work, but we do not start there.

**The Convener:** Are bureaucrats hiding behind titles and structures, while the service to the

people for whom they are supposed to care is secondary?

**Barbara Hurst:** I will not pick up too much on that. The report is challenging for the individuals on the ground, but there are some examples of good practice. Some CHPs are managing it. If we have that in some parts of the country, we can surely replicate it elsewhere.

**Tavish Scott:** Barbara, there is a career for you in the diplomatic service once you have finished what you are doing now; we heard you loud and clear.

Paragraph 33 of your key messages report says:

"We found only one genuine example of a pooled budget in Scotland."

What did you find as to why that is?

**Carolyn Smith (Audit Scotland):** A few organisations gave us examples of pooled budgets that, when we started to examine them, we found to be aligned budgets or some other kind of financial mechanism.

I think that the reason why we found only one pooled budget is that they are difficult to set up and to get out of if the partnership wants to go its separate ways at a later date. There are also more detailed and complicated accounting requirements for pooled budgets. We found that a lot more use was made of them in England and in other parts of the world where resources are pooled. The pooling tended to be where partnerships were more mature and good working relationships had already been established. Services were already being pooled and that was just taken one step further.

**Tavish Scott:** Does Audit Scotland think that budgets should be pooled in order to drive success in the area?

**Carolyn Smith:** The report says that pooled budgets are just one way of jointly funding a service and may not always be appropriate. Aligned budgets could work equally well, depending on the situation and what is to be achieved by pooling services. We have examples of that. For instance, East Renfrewshire CHP, which does not have pooled budget arrangements, is achieving similar outcomes to Clackmannanshire CHP, which does. Pooling budgets is a mechanism for bringing partners together and pooling resources, but it is not the only one.

**Tavish Scott:** The convener was very fair in saying that the general tone of your report is one of deep worry that the partnerships are not functioning as we all want them to function. Are pooled budgets not the key to making them

operate in that way? With pooled budgets, a budget holder is in charge of delivering the objective, whether it is delayed discharges or some of the other things that you highlight in your report. Is that not how we can get the partnerships to work more effectively?

**Carolyn Smith:** Some service managers are in charge of an aligned budget. For instance, a single service manager could be jointly appointed and responsible for the day-to-day management of the social care and health care budgets. Those are aligned budgets, not pooled budgets. The person with day-to-day management responsibility may need to go up the line to get authorisation from the different organisations but, depending on that person's responsibilities, they could equally get on with pulling the services together through the use of an aligned budget.

**Tavish Scott:** You have looked at the issue in depth and have seen that the partnerships are clearly not working—that is what your report adequately illustrates to us. Do we not require a review of what financial mechanism drives success? You have not made a recommendation on pooled budgets—that idea is not mentioned in your recommendations. Are we not, therefore, destined to carry on with the same blancmange that we have at the moment, which is—as the convener rightly said—not delivering for the patients? They are the bottom line in this, not the bureaucrats sitting in their ivory towers.

**Barbara Hurst:** In a sense, pooled budgets are more symbolic—they are obviously symbolic, because there are so few of them. If there is trust and a genuine focus on the individual, it does not matter how it sits as long as there are mechanisms for shifting the money to where it is needed. What will not work is if the budgets for health and social care are kept so separate that no one can say that a better way of delivering the service would be to move a bit from this budget to that one to help a person to stay at home through more innovative services, rather than wait for them to go in and out of hospital because that is where the money is.

You are right that there must be a serious conversation about how those resources are managed for the individual rather than for the blocks of services. Pooled budgets would be one way of doing that, but there may be others. That is why we did not take the matter any further, especially as there is really only one genuine example. That felt a bit too risky. We were more concerned with the cultural issue. Financial mechanisms are needed to provide clear accountability for what is happening to the money, but the thinking could be turned around so that the focus is initially on the individual, rather than the money.

**Tavish Scott:** To echo Willie Coffey's point, in a year's time how will we know that the situation has got any better? Are you planning to come back to it? Is some review mechanism built in? I take your point that the Government is now trying to drive a process and so on and so forth, but how will the committee know, in a year's time, whether the situation has improved in any way whatever?

**Barbara Hurst:** Given how much is going on, I think that we would like to step back for the moment. It would simply not be helpful for us to go in and try to audit such a massive amount of change. We know of projects in NHS Highland that are piloting different ways of managing services and the committee might be interested in looking at the results of that type of approach. The area is too big for us not to come back to it in future, but at the moment it is right that we step back. Too much is happening and I am sure that the Parliament will have major discussions about it.

**Humza Yousaf:** Thank you for the report, which highlights a number of very serious governance issues that the convener and Tavish Scott, among others, have picked up on. When CHPs were first introduced in 2004, the Government felt—quite correctly at the time—that it did not want to be as hands-on as it perhaps should have been and successive Governments have followed the same model to ensure that they are not accused of being top-down and that they do not affect the partnerships' local nature. However, in your report's key messages and recommendations, you seem to be suggesting that Government should be a lot more hands-on. Is there any danger that such an approach might lead to the loss of that local nature and accusations of interference or of being top-down, or do you think that it is essential in order to pick things up?

**Barbara Hurst:** You are absolutely right to point out that these services are delivered locally, which means that a local solution is required. However, we feel that Government can play a leadership role in supporting partnerships and ensuring, for example, that the approach to single outcome agreements is genuinely owned across the piece. That might well be one mechanism for getting a partnership to consider different ways of working. I must stress that we are not proposing some form of Stalinist centralisation—I seem to be going all over Europe in my responses—but we think that the Government has a role to play. After all, given how small Scotland is, the way in which these partnerships work is really important to the delivery of not just health and social care but a whole range of different services.

**Murdo Fraser:** Following on from some of Tavish Scott's questions on governance and accountability, which I feel is a crucial issue, I note Barbara Hurst's earlier comment that the

governance and accountability arrangements were complex. Indeed, exhibit 7 on page 21 of the main report portrays what looks like a spider's web of relationships between the NHS, councils, CHPs and various other committees and bodies. The convener was right to call this report damning; given this complex set of arrangements, one has to draw the conclusion that if CHPs were not bound to fail they were at least bound to face very challenging times. What does Audit Scotland think needs to be done to simplify governance and accountability arrangements or is that a broader question that needs to be left to the likes of the Christie commission, which I believe is reporting on this right about now?

**Claire Sweeney (Audit Scotland):** You are right—this is part of a much bigger issue. One of our key recommendations is that there should be a review of all partnership arrangements in order to be very clear about their focus and purpose and the added value that they bring. Indeed, the report pulls out the distinction between the arrangements in some of the more urban and rural areas, particularly the island boards, where we have looked at the number of arrangements, how appropriate they are and how they work together. Exhibit 7 highlights quite nicely some of the complexities in that respect. It all brings us back to some of Barbara Hurst's earlier comments on being very clear about the added value of the arrangements and what they are trying to achieve.

The report also touches on performance management arrangements, the need to be clear about what success looks like and how to measure the impact of and the improvements made by such arrangements.

It is fair to say that the wide reach of the CHP agenda meant that the team found it difficult at times to think about the key areas that we would examine in determining what success for a CHP arrangement looks like. That is why we started to pull out some of the big health indicators such as delayed discharge and repeat admissions of older people as an emergency.

11:30

We try to get across the message that a clear approach to priorities is needed, that all parties need to be signed up and that strong leadership needs to drive that forward. We felt that the exhibits that explain the key principles that should underpin the partnership arrangements gave a flavour of what it would be fair for any successful partnership arrangement to reflect, whatever it was called and whatever the structure was. That is part of a much bigger issue, but we made recommendations about the need for a good look at all the arrangements that are in place and for reducing duplication.

**Murdo Fraser:** That answer is helpful. Did you get the sense from your investigations that the complexity of the governance and accountability arrangements consumed a huge amount of time? I often hear from people in local government and the health service the complaint that they spend much time in meetings. I am looking again at exhibit 7, which shows all the different forums, groups and committees. Hours in a week must be consumed by managers sitting down and talking to each other and to people in other groups when that time could be more usefully spent.

Case study 4, which is on the Western Isles, says:

"The CHP committee is large",

but most of its members

"are ... involved in other ... groups"

and attendance is poor. We have a huge waste of resource by employing people in important roles in local government, social care and the NHS who spend half their working week meeting one another. Surely that needs to be addressed.

**Claire Sweeney:** We tried to quantify some of the costs of such activity. It comes through in the report that doing that was incredibly complicated. Being clear about what success looks like is definitely an issue.

It is interesting that understanding each other's business emerged early as a potential stumbling block for partners. Often, they rushed ahead to an arrangement without sitting down or stepping back and considering how local authorities and NHS boards do business and without thinking about potential obstacles to a joint arrangement. Partners need to be very clear from the outset about the added value of entering into arrangements—that applies from the big scale right through to small-scale projects.

**The Convener:** Do any CHP members receive additional payments for serving on CHPs?

**Claire Sweeney:** I am not sure whether we examined particular payments.

**Carolyn Smith:** We did not particularly look at that. CHP members do not receive payments for serving as CHP members, but we did not examine whether they are paid by the NHS or other bodies for being a representative of a board.

**The Convener:** CHP members might be paid for being health board members, but do they receive additional payments from health boards or councils for serving on CHPs?

**Carolyn Smith:** Certainly not that we are aware of, but we did not specifically ask about that as part of the audit.

**Barbara Hurst:** If it would help the committee, we could ask some of our local auditors whether such payments are made.

**The Convener:** It would be interesting to know whether any additional payments are made. Murdo Fraser talked about the amount of time that is spent on the plethora of meetings and the cost that is involved in them. Are we adding unnecessary financial burdens? That might not be the case.

**Willie Coffey:** I see that this will be another great session for the committee. We have already had the whiff of scandal and a mention of Stalin, bayoneting the wounded and Teutonic maternity models, and the much-maligned turkeys have featured.

I will inject a wee positive note in defence of CHPs. Since they were established, the trend on delayed discharge has been down. We could argue over whether that is attributable to the existence of CHPs or to other activities, but exhibit 15 shows clearly that the trend since the establishment of CHPs has been down. Of course, we worry about the slight upturn in numbers again, and we need to understand the reason for that.

Barbara Hurst mentioned that the report says that CHPs have little or no influence over how money is spent. The report says that £13 billion is spent on health and community care, yet CHPs have no influence over how that is spent. How on earth could that have been the case from the outset? Was a deliberate choice made when CHPs were established that they were to have no say in how that money was to be spent? Given the amount of work that they do and the discharging that they are asked to carry out, we would surely expect them to have had some influence on spending from that point on. How did this situation come about?

**Barbara Hurst:** As we said earlier, it was originally intended that one of the tasks for the CHPs—I agree with Murdo Fraser that all the tasks were very challenging—was to shift money from the acute health sector to the community health sector. However, CHPs are not really in the position in the structure to be able to influence that; it is up at a health board level. Although we now have clinics in the community and other such things, there has not been a massive shift of money. Perhaps it was unrealistic—I do not know—but, given the current position of the CHPs, shifting money out of the acute sector is a big thing for them to do.

We are saying that it is very difficult. We have not seen much evidence that CHPs have been instrumental in that way; much more of the attention has been on health and social care. Again, in terms of the structure, they sit within a

health board, so they need very good trust and relationships with local authorities because there is an issue with regard to where the money is moving to. They have had a very difficult job to do. You may want to bring in some health boards and speak to them about how they decided where some of those choices would happen, because it is clear that they are happening at a higher level than the CHPs.

**The Convener:** Who would be responsible for the increase again in delayed discharges? Is it the CHP or the local authority?

**Barbara Hurst:** It is a joint responsibility.

**The Convener:** In every case?

**Barbara Hurst:** I suppose that I was speaking from a philosophical point of view. It has to be a joint responsibility because health boards cannot just discharge people if they need support at home and that is not in place. That would be irresponsible. A local authority that is struggling with its budgets will have to make difficult choices and if someone is in hospital, at least they are safe.

**Willie Coffey:** Is the lack of aids and adaptations for people in the home part of the reason why people are not discharged early or on time? Perhaps the adaptation is not ready or available, or affordable, for a person who is going back home.

**Barbara Hurst:** Perhaps Claire Sweeney can remember the statistics on that.

**Claire Sweeney:** It tends to be to do with whether funding is in place.

**Carolyn Smith:** For the recent delayed discharge figures, we were looking at discharges that occurred after the report was published. The main reasons were that people were waiting for a care home placement or for a community care assessment. Waiting on funding accounted for only a couple of delayed discharges. The other issues have been more prevalent recently.

**The Convener:** What do you mean by “more prevalent”?

**Carolyn Smith:** The other issues were more the main reasons why people were waiting on being discharged from hospital—the delay was because of that.

**The Convener:** Because of what? I am not following you.

**Carolyn Smith:** Because people were waiting on a community care assessment, on support at home or on a care home placement.

**The Convener:** Yes, but is that not down to funding as well?

**Carolyn Smith:** The reasons are classified in four or five different ways: waiting on funding to get a care home placement or something else; waiting on a care home placement because there is not one available in the immediate area or in another appropriate area; and waiting on support to be put in place in the community.

**Willie Coffey:** This is probably too specific a point for the Audit Scotland team to mention, but it has certainly given me concern over the years, as a local councillor, when people have complained about the lack of adaptations or the time taken to get adaptations or even assessments of needs by occupational therapists and so on. Is that in the mix and could we follow it up at some point?

**Barbara Hurst:** It probably is in the mix. I suppose that we go back to our telecare conversation earlier. Many years ago we did a report on community equipment, which we have not followed up, in which we found that there were significant delays in getting equipment and a bit of confusion about who was responsible for what type of equipment. All those things probably are in the mix, although I certainly hope that the situation is better than when we did the initial report.

**Drew Smith:** I am probably a little less underwhelmed by this than Willie Coffey is. I think that it is quite a damning report. As a new member, I find it difficult to think about the scale of your operations and how this report fits with other reports that you have done. How bad is the situation that it describes? It seems to be pretty appalling. The report states:

"Few CHP committees have a financial scrutiny role."

It also states that few have been able to influence how resources are used across the system, that there is a lack of challenge at meetings and lack of influence over overall resource and that they are unable to demonstrate their specific contribution. Frankly, that is awful.

If CHPs do not do all the things that we might expect them to, what do they do? Their meetings do not sound like the kind that anyone would want to attend. I am interested in who attends the meetings and what they regard as their role. Is training provided to such people? What is their scrutiny role at meetings? I can understand why attendance is low. Why would anyone go to such meetings?

**Barbara Hurst:** I will pass to Claire Sweeney for the detail, but I will give the big picture. CHPs manage a range of services. All the community health services—for example, health visitors and district nurses—are likely to be managed through the CHPs. Many CHPs also have responsibility for mental health services and learning disability services. They are therefore functioning operational units as well. They must do all the

partnership work in addition to the day-to-day management of services.

**Claire Sweeney:** There are a couple of issues within that. We are interested in issues to do with workforce capacity and skills, which are definitely a factor here. You will have seen that reflected in the proposed forward work programme. There are certainly issues to do with skills, training and the capacity to deal with difficult decisions. We have shown in the report that some areas have started to get to grips with that. The issue is investing in the CHP as the legitimate place to make decisions and do some more challenging work. CHPs operate in very different ways in different areas. In some areas, they are very strategic bodies but, in others, they are quite operational and oversee a lot of detail around particular services in primary and community care. There is certainly an issue there. Is the balance right? Are they doing as much strategic decision making as they can? Are they seen as weighty enough at board level, for example, and with the councils?

Again, there is the issue of the partnership arrangements between all the bodies and agencies. There are also the connections between the boards and councils. How do they fit with the CHP? Do the board and the council sit together and make strategic decisions, with the CHPs being seen as something more operational and functional? There are certainly issues there.

We do not know why people might not attend, as we did not ask them that question. However, I think that it comes back to issues to do with having a clear sense of priority and focus, knowing what success looks like and having everybody signed up to the general direction of travel, with commitment from all partners to start to move things forward. If the partners involved and the people sitting round the table have a problem understanding any of that, the meetings will be less attractive, there will be frustrations about lack of financial challenge and there might be a feeling that not enough information is available to allow them to make some of those decisions. The report covers all those issues, which are interlinked.

11:45

**Drew Smith:** I am not sure what is the chicken and what is the egg. Do CHPs have a lack of influence in their areas because they are dysfunctional, or are they dysfunctional because of their lack of ability to influence? I find it difficult to get to the crux of that.

If we were to investigate the issue, one of the problems would be who we should speak to, because the situation seems to be so different in different areas, with people interpreting the role of CHPs in such a different way. We could call

witnesses and speak to people, but we will only ever find out about their experience of what is happening. Can you give me some guidance on how to gain a broader understanding?

**Claire Sweeney:** I think that that is right—we struggled with precisely that issue. What does the problem look like? What is the reason behind it? Is it a chicken-and-egg situation? The answer is that it will be down to a mixture of reasons. In some areas, CHPs may well have been set up and planned to be less strategic and more operational in their focus but, in others, they have just ended up having such a function. The situation will be different everywhere you look.

In the report, we tried to pull out examples that highlight some of the challenges that exist. We talked, for example, about the situations in Glasgow and the Western Isles, and the different arrangements that are in place in Ayrshire and Arran, and Argyll and Bute. There are some distinctly different models out there. It is an interesting area that involves a mix of issues.

**Mark McDonald:** Drew Smith makes an interesting point about the variations that exist. That struck me, too. The spirit of localism is about local authorities and health boards developing and devising their own solutions but, while areas such as Fife have a number of CHPs, Aberdeenshire, which is just as much of a sprawling, rural area as Fife, has only one CHP to cover the entire population. As far as population and geography are concerned, there seems to be neither rhyme nor reason when it comes to what the CHP model in an area should look like.

The Glasgow case study makes particularly depressing reading because it highlights one of the problems that exist when there are clear tensions between the NHS and the council. Sir John Arbuthnott was pulled in to find a way forward. He identified a way forward, which the parties agreed on, but then they discovered that they could not agree on it because of competing interests and conflicts. Frankly, that is extremely depressing. Is there a systemic issue that is to do with a tension between local authorities and the NHS that affects all CHPs, or does the problem exist only in certain areas?

Willie Coffey touched on the welcome downward trend in delayed discharges. The question to ask is whether CHPs have been integral or superfluous to that. I suspect, from reading the report, that the answer will be that it varies. Although the report raises a number of areas in which we are right to be extremely critical, it is worth noting that you identified some areas in which CHPs are working and delivering. The question that we must ask is whether there are local factors in the areas where they are not working that are causing that to happen, or

whether we are talking about a problem with CHPs per se. If CHPs have been effective in some areas, can that good practice be transplanted to other areas to make their CHPs more effective, or are there stumbling blocks that are too difficult to overcome? Those are issues that we need to consider, and I would welcome your views on them.

**Barbara Hurst:** There was a lot in that question.

The situation in Glasgow was well heralded for a long time. When we did the audit, we felt that we had to try to understand what was happening there. We certainly knew that Glasgow was ambitious in what it was trying to do. Other CHPs were watching with interest because Glasgow was going for quite a big solution. It did not work for the range of reasons that we have outlined in the case study.

There is a mixed picture of the ways in which health boards and local authorities work across the country. There are definitely places in which they are working well, but it is hard to know how to transfer that because they are working well partly because of their relationships, culture, leadership and so on. Those are the softer aspects of management. It is easy to transfer the management of a budget if you think of it as, "We do it this way by doing this, or by doing that," but it is more difficult to transfer those softer aspects.

It is interesting to note that a number of the councils around Glasgow are all following the East Renfrewshire model. Inverclyde and West Dunbartonshire are moving towards a more integrated model, so Glasgow's experience has not put everyone off.

**Mark McDonald:** Thank you.

Convener, I should say that, having made a note to declare an interest, I forgot to do so: I am a member of a local council.

**George Adam:** I agree with Willie Coffey on the issue of occupational therapists. In Renfrewshire, I have also had the specific problem of people queueing up to have their houses adapted.

I, too, agree that there are some CHP success stories out there. I always get concerned that, when we receive a report like this one, we all run for the hills, take cover and say, "It's broken. Let's try and find a way to fix it."

In general, is it not true that we need to be more proactive in social care to reduce spend at the other end? With the population getting older, we have to be cleverer. If we can get it to work, the CHP model looks like it could deliver that service. During the discussion, you mentioned strong leadership, whether that is political leadership in the local authority or leadership at the officer level in the various parts of the council and the NHS.

We need to break down the barriers between those organisations. We live in a world in which they are all going to have to work together. It is not just a case of us saying that we would like things to work; they are going to have to work. How do we get to that situation? There is such leadership in my area, but how do we transfer that into other areas? Do we provide guidelines to making the situation better, rather than requiring areas to reinvent the wheel?

**Barbara Hurst:** That is the million dollar question. Exhibit 1 sets out the key principles. I agree that there are some good success stories out there. The complexity, particularly for services for older people, is that in recent years, the emphasis has been on intensive home care support, which is highly laudable. However, in some ways, that has been done at the expense of some of the more preventive services at the lower level, such as cleaning, shopping and doing the laundry. That shift to home care support therefore has an impact on services.

The report is about CHPs, but it is quite difficult because it is also about the decisions that underpin what they are trying to do. All this takes us back to our earlier discussion about preventive spend as opposed to emergency spend. Of course we have to spend when there is an emergency, but we might be able to prevent some of that. The CHP is well placed to facilitate those discussions.

Where CHPs are working well, they are working well, but where they are not, they are not. That is a truism but, because the picture is so mixed, it is difficult to describe.

**The Convener:** I will draw the discussion to a conclusion. It has been fairly comprehensive and we have covered a wide range of issues. I suspect that you have whetted members' appetites for the issue. Thank you for your contribution.

**Barbara Hurst:** Thank you, convener. I hope that that has reassured the new members of the committee that audit is not really boring.

**The Convener:** That sounded like a plea from the heart.

11:55

*Meeting suspended.*

11:59

*On resuming—*

## **“An overview of local government in Scotland 2010”**

**The Convener:** For item 4 we have before the committee John Baillie, who is the chair of the Accounts Commission. He is joined by Fraser McKinlay and Gordon Smail.

I apologise for the delay in calling this item, but I think that it is important, particularly for new members, to engage in a full discussion with Audit Scotland, both on its programme and on a specific issue. The discussions on both agenda items were very useful, but I apologise for the delay.

Would Mr Baillie like to make an opening contribution?

**John Baillie (Accounts Commission):** Yes, please. Thank you, convener.

The Accounts Commission welcomes the opportunity to give this briefing to the committee based on our local government overview report. We particularly welcome the opportunity to engage with the committee at such an early stage in the new session of Parliament. The commission has previously provided briefings to the Public Audit Committee and other committees of the Parliament, and we know that members are interested in hearing about the performance of local government.

I will not refer to the roles and powers of the Accounts Commission in any detail; those matters are covered elsewhere, including in an appendix to the Public Audit Committee's session 3 legacy paper. We have recently published our annual report, which summarises our work over the past year, and a copy of that report was provided to members of the Scottish Parliament. It stresses that our role is to hold local government to account and to help it to improve.

I will highlight four points that are made in our annual report. First, our work on supporting improvement has been developed by launching a new series of reports, which we are calling “How councils work”—that series of reports was referred to at some point in the previous two evidence sessions. The first report considered how councillors and officers work together in local government. We recently published the second in the series, on arm's-length external organisations—ALEOs. I know that a question on that issue will come my way in due course this morning. In the earlier discussion today there was reference to the question whether auditors and other inquiry agents can concentrate more on

prevention. One of our hopes is that by focusing on improvement and the good practice that we notice around the place, that will contribute to prevention rather than to retrospective criticism.

The second point that I will highlight is that we covered the steps that the commission is taking further to facilitate and co-ordinate the scrutiny of local government, which is the most important area of our activity just now.

Thirdly, we stress the extension of our best value audit work in councils to cover police services and fire and rescue services, in conjunction with the service inspectorates.

Finally, we refer to our continuing work on performance audits, which you have heard much about this morning and which I will not belabour further.

As I said, the commission's role is to hold local government to account on behalf of the public and to help local government to improve. Central to that, particularly in the current environment, is a focus on governance and financial stewardship. We have strong powers available to us to support us in that work. For example, in cases where problems emerge at individual councils we consider reports by the controller of audit, who is sitting to my right, and we make findings and recommendations and—where we decide that our doing so is appropriate—we hold hearings in public. More generally, we use the independent external auditors that we appoint to ensure that action is taken in councils and we also monitor the outcome of the performance audit work that you have heard much about this morning.

I hope that the brief overview of the commission's work that I will give is helpful. I will, of course, be pleased to elaborate on any aspect during the discussion today or in correspondence. I stress that we at the Accounts Commission would certainly welcome the opportunity to develop our working relationship with the Public Audit Committee, however formally or informally.

Let me turn briefly to the main business today, which is our overview report on local government, which we published earlier this year. The report sets out the main matters arising from the local government audit work in calendar year 2010. We are now at the stage where the next cycle of that work is about to get under way in the form of the financial auditing, but of course throughout the year there are best value reviews and performance work, too. The current cycle will produce the next report in December.

In the report for 2010 we recognise the significant challenges that councils face in the coming years both from reducing budgets and from growing demands on services. Councils and councillors face extremely difficult decisions in

allocating funds and prioritising services. That in itself is not unfamiliar territory for councils, but what is new is the range and scale of the financial pressures that they face. That requires councils to consider more radical changes in services, including the potential for more joint working in partnerships.

We have seen that the councils that are best placed to deal with the challenges are those that have made most progress in embedding strong performance management and establishing clear and robust systems of governance, accountability and scrutiny. Those are the principles that underpin best value. More than ever, it is now essential that councils apply those principles if they are to manage the pressures that they face.

As we say in the report, councillors need the right information at the right time to make sound decisions, ensure value for money, scrutinise performance and understand the effects and consequences—good and bad—of the choices that they make on the communities that they serve.

Our report highlights the importance of councillors' community-leadership role, which is crucial if they are to retain the support of the public and continue to ensure the success and wellbeing of their areas. In short, councils have taken serious steps to address the pressures that they face and they need to build on the improvements that they have achieved in recent years. For our part, we will continue to hold them to account and to support improvement through our best value and financial work in councils, our work on performance studies and through our key role in co-ordinating scrutiny in local government.

We are happy to take questions.

**The Convener:** Thank you for that. I have a few questions. I return to the question that I asked earlier about arm's-length organisations. I know that there will be an audit function of those organisations. When Audit Scotland produces reports on Government agencies, such as Transport Scotland, it is not only the Government that has to respond—there is an opportunity for Parliament to comment. If concern is expressed about an arm's-length organisation's use of money or the way it operates, and the Accounts Commission issues critical comments, is there any way of holding the organisation to account other than internally in the council? Even within local authorities, is there any evidence of robust challenge and scrutiny of the way that such organisations are behaving, particularly in response to reports from organisations such as yours?



**John Baillie:** I will make four general points first and answer your specific question after that, if I may, so that I can put my answer in context.

The first thing to say is that ALEOs are subject to the same principles of following the public pound, which were published some time ago, so we hold them to account on that basis.

Secondly, an important point is that councillors who act on behalf of the council when they attend board meetings or trustee meetings of ALEOs must remain independent and look after the interests of the council. At the same time, councillors usually have legal obligations as members of boards or as trustees. They have to manage that and be properly advised on their position by the likes of monitoring officers, for example.

Thirdly, of course, there is a general issue about whether councillors on arm's-length boards should be paid. There has been controversy about that recently, which has been dealt with by announcements of impending legislation from 1 July.

Fourthly, the auditors are appointed by the ALEO's management, rather than being under the control of the council as such.

To come to your specific question, we regard ALEOs as being within our bailiwick. We will take an interest and we will take action when we see something that needs to be investigated. For example, Strathclyde partnership for transport falls into that category. I ask Fraser McKinlay to comment further on SPT, as it is an example of the concern that you express.

**Fraser McKinlay (Audit Scotland):** SPT is a wee bit different but, on the principles, there are a couple of ways in which we can keep an eye on what happens in arm's-length external organisations. First, when an ALEO is part of the group accounts, our auditors audit those accounts and, in doing so, they will talk to the auditors of the ALEO so that we get assurance on the audit work that happens in it. We recognise that the ALEO, as a company or charity, appoints its own auditors, but we take assurance in that way.

The other key issue, which John Baillie mentioned, is the principle of following the public pound. Our auditors in councils ensure that processes and governance structures are in place to ensure that where public money goes to an arm's-length external organisation, checks and balances are still in place to ensure that the council is aware of how the money is being spent.

The reason why we published a report on the issue just a few weeks back—Gordon Smail led on that piece of work—is that there are more ALEOs now and they are growing in number. They bring

advantages and benefits for councils, including flexibility in services, but there are associated risks. The report talks about things that councils need to do to set up ALEOs properly in the first place and things that we would expect to be in place to monitor their governance. If things in an ALEO were to go horribly wrong, we would still expect that issue to come via the council, particularly if council money is being directed to that ALEO. We can pick up the issues through the audit process in that way.

**The Convener:** You give an example of an ALEO that relates to one council, but you also mentioned SPT, which involves several councils. The Parliament was frustrated that we could not comment on what was reported as happening in SPT, because it was outwith our responsibility. To compare, if Audit Scotland produces a critical report on Transport Scotland, we can get senior officials from Transport Scotland, civil servants and ministers in to explain in public exactly what happened and to try to justify their role. With SPT, when the Accounts Commission produces a report, there is no such scrutiny. Do the 12 individual councils, one by one, hold people to account or does SPT do that? There does not seem to be an ability to have independent and rigorous scrutiny of arm's-length organisations, other than just leaving it to councils' internal mechanisms. I do not single out any specific council but, frankly, I do not think that that happens.

**John Baillie:** I will respond specifically on SPT and on other more recognisable forms of ALEOs. We were appointed to hold SPT to account, which is precisely what we did by publishing our findings and severely criticising behaviour as being unacceptable. Since then, various things have happened to improve the set-up, as you well know. In a sense, the Accounts Commission is carrying out for local authorities the role that the Public Audit Committee carries out in everything else.

**The Convener:** No, it is not, actually. Your role is analogous to what Audit Scotland does on behalf of the Parliament. You produce a report that is critical in the same way that Audit Scotland or the Auditor General produces a report that is critical of, say, Transport Scotland. The Accounts Commission does not then invite in the key players for public examination.

12:15

**John Baillie:** We might be talking slightly at cross purposes.

**The Convener:** Let us get on the same track, then.

**Fraser McKinlay:** This gives us a helpful opportunity to explain a process that is not necessarily that obvious to people who are not closely involved in it.

As controller of audit, I take reports from auditors and report to the Accounts Commission. The case of SPT does not provide a perfect analogy, as it is a local authority in its own right, but we can use it as an example, anyway. In that case I, as controller of audit, submitted a report to the Accounts Commission, which considered that report and questioned me on the findings in the same way as you would question the Auditor General. On receipt of that report, the Audit Commission has a number of options. For example, it can make findings or it can hold a hearing in public, which has happened a few times in recent years, notably in Aberdeen, West Dunbartonshire and Shetland, which Mr Scott knows well. In the case of SPT, the Audit Commission decided to make findings. It also asked me, as controller of audit, to come back with a progress report, which we will produce later this year.

I am not trying to draw distinctions or similarities; that is how the process is designed. It recognises that councillors are accountable to the public as they are democratically elected by their constituents.

**John Baillie:** That is an example of the issue that recurs now and again, of central Government democracy and local government democracy. I think that you are all familiar with that debate.

**Tavish Scott:** You are saying that Parliament does not have the opportunity to question, in this case, SPT.

**John Baillie:** That would appear to be the case, other than—

Let me stop for a moment. Is there nothing in the committee's remit that could have been used to invite SPT to come and join you?

**The Convener:** My understanding is that there is nothing that we could have used to do so in relation to that report. Fraser McKinlay said that SPT

"is a local authority in its own right".

I have not heard that exact phrase used before, but SPT is at least a local authority-related body, and it is because of that fact that we do not have the ability to go into that issue in detail.

**John Baillie:** The issue that Tavish Scott raised is one that the Accounts Commission and—I think—Audit Scotland have been concerned about for some time. Parliament devotes a big chunk of its money to local authorities. Where is the accounting for that? It is accounted for in several

ways, of course. The matter comes back to the issue of parity of esteem, which was agreed to way back as a principle of government in Scotland.

**Tavish Scott:** That is a wider policy issue that we could debate all day. However, I am just trying to explore the parliamentary point that the convener is also making. The Local Government and Regeneration Committee can haul in any local government representative or people from the Convention of Scottish Local Authorities to talk about what a council is doing. However, with specific regard to auditing those third-party bodies, do we have the right to bring them before our committee to question them on issues that have been raised in the context of the Accounts Commission's work?

**John Baillie:** I would have to defer to those who are specialists in that area. One way to square what might be a circle would be to ask the Accounts Commission to talk about the matter. That might provide some way into it. I understand the point, which is why I keep expressing the desire on the part of the Accounts Commission to have a closer relationship with the Public Audit Committee.

**George Adam:** I am a bit concerned. I was a city councillor and I have never heard SPT referred to as

"a local authority in its own right".

If we bear it in mind that SPT as an organisation has appointed members who are not councillors and who are not directly elected by the public, SPT's accountability to the public is a bit woolly there, as well. Because of its status within the whole framework, all money that goes to it is top-sliced and goes straight to SPT. In Renfrewshire Council, we tried to bring SPT to book on certain things, such as what we were getting for our £3 million a year, and it refused to get involved because it said it had an internal process. Who is it accountable to?

**John Baillie:** In this case, it is accountable to Audit Scotland as the auditors, and then to us, following the controller of audit's report. Gordon Smail might want to add something.

**Gordon Smail (Audit Scotland):** I was involved in putting the SPT report together. What has been explained is how it is. It is covered by the Local Government (Scotland) Act 1973 and as a result, if issues arise from the audit they can be picked up by the controller of audit and reported to the Accounts Commission. That is what happened in this case. The commission will then make a decision about what to do. Fraser McKinlay outlined the powers that are available to the commission. In this case, the commission made findings. If you recall, there was a strongly worded

report and a strongly worded conclusion by the controller of audit. The commission's findings came in behind that and raised very publicly many of the concerns about expenses and other related matters in the operations of SPT.

The discussion about SPT has taken us down a path that is not directly related to the convener's point about ALEOs. Earlier this year, we did some investigative work up at Highland Council. The council had an ALEO as we understand them, in the sense that it had a company that was set up to deliver a local energy power system. It was a heating and power system that was going to use local businesses to channel heat and power into council houses and other social housing in the area. Our report considered the council's responsibility for overseeing substantial amounts of public money—in the order of about £10 million—which went from the council to support the company, which in turn attempted to bring the service into being.

Through that report, we looked at the important principle about following the public pound. However, the point that I am trying to make is that that was very much in the context of the council itself; what the council was doing, what the elected members on the council were doing and what senior officials in the council were doing to ensure that the money that was being channelled through the council to the ALEO was being used properly. The principle on following the public pound is that the pound, whether it is spent directly by a council or through an ALEO, is subject to the same scrutiny and should be providing the same value for money to taxpayers.

**Mark McDonald:** I appreciate that SPT is not the same as an ALEO, but it is an important point to consider because we have identified a grey area here in relation to SPT.

My first year in Aberdeen City Council was when the Accounts Commission hearing took place, albeit that it was dealing with a report from before, from 2002 to 2006. The Accounts Commission has also held a hearing in West Dunbartonshire and one in Shetland. That is easy to do when there is one identifiable local authority, but a large number of local authorities buy into SPT.

You say that local authorities are directly accountable, which is true, but the problem then is that you could have variations in how local authorities choose to deal with the outcome of the Accounts Commission's scrutiny of SPT. The question is whether it should be someone's role to hold the people who are in charge at SPT to account. The approaches that are taken by local authorities could vary. You are right that SPT is not exactly the same as an ALEO, because a number of local authorities are involved. The question is this: how do you effectively audit

something when a number of different partners and stakeholders are part of that process?

**John Baillie:** I will give a quick response and then invite Gordon Smail to develop it. On SPT, it was within our rights to ask for a hearing in public, but we decided not to do that. We decided that there was nothing further to be gained by having a hearing because all the facts were on the table from the controller of audit's report. We could have had a hearing, however. I am just trying to ensure that there is no confusion between joint work and singular work.

**The Convener:** Okay.

**Gordon Smail:** Can I just—

**The Convener:** I am aware that time is pressing. Members have identified an area of concern. Not all of that is within your gift to resolve. The previous committee's legacy paper flagged up some related issues. Perhaps you could bear the matter in mind in considering what the input of the committee—or, indeed, the Parliament—might be to any future work that you do.

Can we widen out the discussion? Do members have other questions about local government?

**Mark McDonald:** One thing that leapt out at me from the report is the issue of single status. The single status agreement was put in place in 1999, but only now, 12 years later, do all 32 local authorities have single status agreements in place. For me, two things arise from that. The first is to ask how much money has been wasted during that period because of some authorities' procrastination in not getting a single status agreement in place early. A number of claims will follow from the lack of urgency that was demonstrated.

The second point is that, by and large, the 32 local authorities have 32 different single status agreements and there will be variations between authorities. Is there a risk attached to that, given that there has been no overall examination of single status agreements to ensure that there is parity between local authorities? Do we run the risk of, as Orwell would have put it, some workers being more equal than others as a result of that?

**John Baillie:** If I can side-step the question about wasted money, the frank answer is that I do not know how much of the total that has been spent has been wasted. We would probably have to debate the definition. I can tell you that the total cost has been about £480 million so far, and there is about £120 million more to come—something like that.

Forgive me—what was the second point?

**Mark McDonald:** It was about the 32 different local authorities with 32 different single status agreements, and the variances that exist.

**John Baillie:** I agree with you. I think that there is a risk. Some of us have debated here and there whether there is a case for some form of audit study to see whether there is a genuine national risk. At the moment, we have decided not to proceed, but it might be worth while to look at that again.

**Fraser McKinlay:** COSLA has had proposals to look at that on the stocks for some time. Now that all 32 schemes are in place, it will be interesting to see how quickly that happens. We are keeping a close eye on it because, as John Baillie said, if it does not happen, we will clearly be interested in it.

A wider issue for me is the extent to which single status has been used in the way in which it was designed to be used, which was to modernise how pay systems work in local government and take the opportunity to modernise the workforce in a wider sense. It would be interesting to look at how councils implemented single status schemes and what they did with the opportunity, which might have been lost. Members of the Local Government and Communities committee were interested in the issue in the past few years and we continue to keep a close eye on it.

**Drew Smith:** I welcome the move to a wider overview, but if the convener will forgive me I will bring the discussion back to ALEOs.

One of my concerns—the issue is mentioned in your report—is about clarity of roles and responsibilities. That gets to the crux of the problem. Leaving aside the SPT issue, there is a deficit in the scrutiny of ALEOs in general because of a lack of understanding of people's roles and responsibilities when they sit on boards. Terminology is used—such as the term “company directors”—that I find unbelievably unhelpful. I am happy to leave to local government the scrutiny of its own services, and I am sure that council committees hold their officials to account effectively. However, that relationship changes when someone is appointed to the position of a company director, they sit in board meetings outside the council and they have legal advisers telling them that they have a duty to the body of which they are a director. There are issues with the confidentiality of their papers and how the scrutiny is passed back into the council.

That is where there is a role for this Parliament. When bodies move outside the proper democratic governance of a local authority, they need to be scrutinised by someone. That is my concern in the issue. In our discussion about community planning and in the changes we will no doubt see through the Christie commission, in which public services

may move outwith the traditional governance structures of local authorities, there needs to be some oversight at the democratic level. Do you agree that terms such as “company director” are not a useful way of thinking about the issue?

12:30

**John Baillie:** As you have neatly summarised, the problem is the conflict between being a company director, with the raft of responsibilities that that entails, and being a councillor. The current accountability occurs by following the public pound and the council, and we take every opportunity to look at that closely: the minute that we see any hint of a problem on an ALEO, the teams look at it very closely. Indeed, the organisations are all monitored all the time in any case.

**Gordon Smail:** Drew Smith has hit on the crux of the issue: roles and responsibilities.

Both we and our colleagues have mentioned a couple of times the “How councils work” series that we are doing. The first report, which we published in August last year, was on the question of roles and responsibilities. As part of that work, we spoke to a sample of councillors from six councils across Scotland. We eased our way into the ALEOs question, and some of the responses that we received, on an anonymised basis through the people who did the work for us, were very revealing. Some people who were placed as a company director or trustee of a trust did not really understand what was expected of them or what the relationship was between being a councillor and a company director or trustee.

We have developed that further in the ALEOs report that we published on 16 June. It is crucial to get that understanding right from the start. It was a crucial issue in the Highland Council case that I mentioned earlier—the tensions between being an elected member and being a company director, how the balance has to shift and where the primacy lies, particularly when things start to go off the rails. That is what I say about the subject when it comes up: these things tend to jog along fine when things are going well; it is when the problems start to emerge in the finances or deliverability of the service that things start to unwind. There are key issues of governance, which should be underpinned by a clear understanding of roles and responsibilities.

That is the long way round of saying that I absolutely agree with Drew Smith.

**The Convener:** It would be interesting to see whether it would be competent for this committee, or indeed for another committee, to look at those issues of governance. They drive to the heart of much of what we have discussed. I do not know

whether we can do that, but even if we cannot the issue needs to be highlighted for someone else to consider at some point.

**Colin Beattie:** Perhaps I should start by declaring an interest as a local councillor.

Pensions are a topical issue at the moment, and I know that a lot of work is being done on them. Looking at the figures in paragraphs 46 to 50, I see an exponential rise in the gap between liabilities that the councils have and the assets that they hold. I know that those gaps move around according to market value, and it is possible only to take a snapshot and say, "That is the position at a particular time." However, the report states that there has been

"a 53 per cent rise in the estimated cost of future liabilities."

That is huge. A lot of councils are downsizing and offering early retirement to their older staff, and the change in the demographic profile is also affecting the workforce within councils. I assume that those factors are built into the 53 per cent rise, but I also presume that there is probably more to come that will impact negatively on the gap. Potentially, there is a time bomb that has not been addressed. How much of a worry is it?

**John Baillie:** As you know, we did a separate joint report on pensions. The 53 per cent rise includes the usual actuarial techniques of valuation that use bond yields to value the liabilities. When bond yields are low, as they are just now, the present value of future liabilities is much higher. That accounts for a significant chunk of the 53 per cent rise. That is not to say that we do not have to worry—of course we do—but the techniques that are used in valuation, rather than liabilities that have to be met today, contributed significantly to that figure. That is a qualification or explanation of the 53 per cent figure. However, I agree entirely that there is potentially a time bomb.

**Gordon Smail:** Mr Beattie was absolutely right to talk about a snapshot. That snapshot was taken on 31 March 2010. As Mr Baillie said, one side of the equation is how to value the liabilities at that time; the other side is what the stock market looked like on that particular date.

We must bear in mind, and keep as a contextual issue in the background, that the overall value of assets in the local government pension fund is of the order of £21 billion, but Mr Baillie mentioned the key issue. This is absolutely a sustainability issue. We know what the demographics look like and that the number of people who are working in local government is falling—we know that from other parts of the report, and it has been reported elsewhere. As a consequence, fewer people will make contributions through their month-to-month salaries. Sustainability is therefore a big issue. We saw what the Hutton report said, and there is

much more water to go under the bridge to ensure sustainability.

**Colin Beattie:** One of my concerns is that there does not seem to be any thought that there might be increased contributions coming down the line. That is certainly the case as far as my council is concerned, and I am sure that it is the case elsewhere. The report refers to the possibility that increased contributions might be required, although their quantification is perhaps a bit speculative. I do not know the extent to which councils are aware of the potential liability that is coming to them.

**Gordon Smail:** The triennial valuation is happening at the moment. A revaluation of the scheme is done at a set time. It should be borne in mind, of course, that the local government scheme is a funded scheme, so there are substantial assets underlying it, as I have said. That makes it different from many other schemes that are known colloquially as pay-as-you-go schemes. The triennial valuation should be reported on at around the start of next year, and it will give councils as employers a clear indication of employer contribution rates over the subsequent three years. There is some certainty in that process, and things will become clearer to allow financial planning to be done. The big unknown question is what the underlying position is, and how it will affect employees' and employers' contributions that are loaded on top of the triennial valuation that we would expect in the normal series of things. As I have said, much more discussion of the topic, particularly of sustainability, is needed, as the matter is very important to many people in local government.

**George Adam:** Page 11 of the report says that, for the first time ever, public-private partnership and private finance initiative projects are on balance sheet. That is a welcome addition. It always seemed a bit odd that such amounts of money left local authorities without anyone getting to see to whom and where they were going. However, the figures are quite concerning. The report mentions

"assets of £3.1 billion and debts of £2.9 billion".

Is that a finite figure? Will it remain the same or is it just a guesstimate at this stage? I know about PPP schools in Renfrewshire. An amount of £100 million might be involved, but the cost will be £400 million over the period.

**Gordon Smail:** We have simply reflected the principle of an accounting change that, as you rightly point out, increases the transparency around what is on balance sheet. As you say, the figures in question were previously off balance sheet. There are valuation techniques that relate to the amount of assets and related liabilities that

are brought on. That is how those figures are reflected in council balance sheets. There is a wider issue about the on-going costs that councils have to pay for the services that they acquire through PPP/PFI projects. Those figures are also clear in councils' accounts. In general, things have become a lot more open and transparent.

Of course, there is a broader question about the use of PPP/PFI and equivalents to fund capital assets. In this part of the report, however, we were trying to draw out shifts in borrowing, particularly the variability in the way councils are funding their capital projects and whether they are using what you might call a traditional borrowing set-up or PPP/PFI.

**John Baillie:** PPP was popular partly because you did not have to put it on your balance sheet.

**George Adam:** When I sold cars, they used to call that contract hire.

**John Baillie:** Indeed. I also refer members to the succeeding paragraph, which makes the somewhat obvious point that the more you borrow, the less flexible you can be in future.

**Willie Coffey:** One unintended consequence of the UK recession is that my council, for one, has been able to make savings in the procurement of some public sector capital projects. Is that relieving at least a wee bit of the pressure on authorities, given the financial position that they are facing?

**John Baillie:** One problem that we have had with capital projects for perhaps a year or more is that many councils have lost the flexibility that came from being able to realise better asset values and do not have as much promised revenue from the sale of land to fund other things. However, as funding has become more difficult, there has been a slowdown.

**Fraser McKinlay:** We are certainly very interested in the issue. Going back to the committee's discussion of Audit Scotland's performance audit programme, I point out that next year there will be a report on managing capital investment in local government. Although we have looked at some big national infrastructure projects, we are also very interested in how these things happen locally. As this report makes clear, capital budgets have taken a big hit, which I am sure has in turn encouraged councils to drive a harder bargain. That has to be a good thing.

Local auditors regularly report on the delivery of capital programmes. As you know, some councils have historically not been very good at delivering such programmes, either because they are being too ambitious or because they are simply not managing them properly. That will no doubt feature again in our overview report and we will

have an opportunity in next year's national performance audit to look at some of those issues in a bit more detail.

**The Convener:** As members have no further questions, I thank Mr Baillie, Mr McKinlay and Mr Smail for their evidence. No doubt we will be hearing from you again. We might not do so as regularly as we hear from the Auditor General, but we look forward to your contributions. Thank you very much.

**John Baillie:** Going back to the first part of today's discussion, I should say that the Accounts Commission has been concerned about its relationship with the committee and how we might feed into your work more regularly. Obviously it is a matter for members but the committee might wish to pursue other areas that the Accounts Commission gets involved in, whether it be particularly controversial matters such as SPT—I deliberately use that example because I know that the previous Public Audit Committee was concerned about it—or indeed everything that we do.

**The Convener:** That would be useful, as certain matters of concern have arisen that members would have liked to have examined but were unable to. Thank you for the offer. We will take advice about what is competent and get back to you.

**John Baillie:** We are not territorially jealous.

**The Convener:** Thank you. I now move the meeting into private session.

12:44

*Meeting continued in private until 12:50.*

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