



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 7 September 2011

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CONTENTS

	Col.
DECISION ON TAKING BUSINESS IN PRIVATE	71
AUDIT SCOTLAND ANNUAL REPORT 2010/11	72
SECTION 23 REPORTS	79
"Transport for health and social care"	79
"Scotland's public finances: addressing the challenges"	91

PUBLIC AUDIT COMMITTEE

3rd 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 ALSO PARTICIPATED:

Mr Robert Black (Auditor General for Scotland)

Graeme Greenhill (Audit Scotland)

Barbara Hurst (Audit Scotland)

Liam McArthur (Orkney Islands) (LD)

Gil Paterson (Clydebank and Milngavie) (SNP)

Claire Sweeney (Audit Scotland)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 1

Scottish Parliament

Public Audit Committee

Wednesday 7 September 2011

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

Decision on Taking Business in Private

The Convener (Hugh Henry): I welcome everyone to the third meeting of the Public Audit Committee in 2011. I remind everyone to ensure that all electronic devices are switched off so that they do not interfere with the recording equipment.

We have had apologies from Tavish Scott and Willie Coffey, for whom Liam McArthur and Gil Paterson are substituting respectively. I ask Liam McArthur whether he wishes to make a declaration.

Liam McArthur (Orkney Islands) (LD): I have no interests to declare that I am aware of.

The Convener: Does Gil Paterson have a declaration to make?

Gil Paterson (Clydebank and Milngavie) (SNP): I direct the committee to my published declaration of interests, but I will make a small adjustment to it. At the time of writing that declaration, I had been invited to become a member of Clydebank Re-built, and I am now a board member. I must correct the record—I had better get it sorted out today.

The Convener: Thank you.

We have two representatives from the Swedish Parliament with us today: Jessika Vilhelmsson and Lena Asplund. They have specifically expressed an interest in sitting in for part of the committee proceedings this morning. I welcome them and hope that they find their time with us productive and informative.

Under item 1, does the committee agree to take items 6, 7 and 8 in private?

Members indicated agreement.

Audit Scotland Annual Report 2010/11

10:03

The Convener: Item 2 is the Audit Scotland annual report. I welcome Robert Black, the Auditor General for Scotland, who is accompanied by Barbara Hurst. They are both familiar faces at the committee. Would Mr Black like to address the committee?

Mr Robert Black (Auditor General for Scotland): Thank you, convener, and good morning. I would like to put on record how much we are looking forward to working with the new Public Audit Committee. It was a pleasure to have the opportunity to become acquainted with members earlier this morning.

The report refers to the financial year 2010-11 and provides a summary of all our work and our use of resources. I should mention at the outset that the report will no doubt be considered in detail by the Scottish Commission for Public Audit, which holds us to account for our performance and use of resources. I note that Colin Beattie and the convener are members of the commission, so we will no doubt discuss the report further when it meets.

I will mention some highlights that might be of interest to the committee in setting the context for the work that we will undertake. My colleagues in Audit Scotland and I have been keen to demonstrate that we are aware of the serious situation of Scotland's public finances. Some time ago, we set ourselves the target of reducing the cost of everything that we do by 20 per cent in real terms, through to the end of the spending review in 2014. You will see that partly reflected in the annual report, in the year-end numbers and so on.

As we are a professional organisation, meeting that target means reducing our staff numbers, and we are on target to do so by more than 40 in the period to 2014. I am sure that the SCPA will explore that more fully, but I wanted to mention that my colleagues and I recognise that, although Audit Scotland is a small body in spending terms, we must face up to the same challenges as the rest of the public sector.

I will pick up on a few of the highlights from this year's report. The one that is most directly relevant to the committee is that we have outlined on the very last page all the reports that we published in 2010-11. You will see that there are a large number of reports that could broadly be called performance audits, including reports on the national health service and best-value reports on councils and the police board. There are about 26

of those in total, if one includes some of the improvement work that we have done, for example with councillors and officers on roles and working relationships.

That page goes on to indicate that a large number of reports on our audit work do not surface at this level, if I may put it like that. Each and every one of the bodies that we audit gets a final audit report at the end of the year, which captures the auditor's independent perspective of its stewardship—how it has managed its funds—and its performance, and, equally important, any risks that we see.

A huge amount of work that goes on lower down in the ice pack does not surface here, but we build that information up into the high-level reports that the committee receives. For example, the "Financial overview of the NHS in Scotland 2009/10" drew extensively on the work of the local audit; the committee will receive the next one of those reports, which includes a look at the performance of the health service, before the end of the year. There is a large volume of work going on, and we are happy to answer any questions about it.

Secondly, I will highlight the national fraud initiative, which is a really useful exercise that is described on page 18. It attempts to use computer data matching between different records from areas such as housing benefit, payrolls, public sector pensions, permits and tax to try to ensure that significant fraud and error—people receiving payments in error or, unfortunately, occasionally fraudulently—is detected. We have been running that initiative for a few years now and, as we state in the report, the cumulative benefit amounts to £63 million of expenditure that has been inappropriately paid out as a result of fraud or error. We have new data-matching powers that came into law late last year, which allow us within the framework of the law to extend that work a bit more fully.

However, we are very conscious of the need to observe people's civil rights. All the work that we do has been discussed in advance and approved by the United Kingdom Information Commissioner, because sometimes we are studying UK and not just Scottish data sets. That is quite a significant element of our work, which we do regularly.

I will come back now, briefly, to Audit Scotland itself, but without going into great detail. We carry out surveys of all the audited bodies that we cover, and we are pleased to be able to report that the surveys are returning the message that we are considered to provide a very high-quality service. For example, that was thought to be true by 100 per cent of further education bodies and some 94 per cent of health bodies. We always strive to do better, but that is an area in which the value of our

work has been perceived to be improving over the past few years.

Audit Scotland put itself forward in the best companies survey, and we were one of the top 75 best places to work in the whole of the UK public sector. We made it to the category of being one to watch, which means

"on the journey to improvement and getting better".

That was a useful independent and robust audit of how the way in which Audit Scotland sets about its business is perceived.

We do a lot of work in conferences and seminars, and we sit on working groups and so on. I would also like to mention—especially as we have our guests from Sweden here—that we do some international work. Our website contains a separate annual report on that, which I would encourage people to look at if they can find time in their busy diaries. In that international work, our main focus is on giving support to European countries—in particular, the developing eastern European countries. We have also done work in other parts of the world, and in that we have partnered the National Audit Office of the UK Government. In the past, we have also done work with the Swedish audit office, with which we have had a very successful and productive relationship.

As we note in the annual report, we have been invited to participate in the audit of the United Nations. For a small audit organisation, that is a little feather in our cap. It is very hard work for the staff involved, but it is certainly an experience for them.

In the past year, we have hosted delegations from Japan, Finland, Moldova and China. There have been several visits from China to Audit Scotland, and the Scottish Government has been interested in that. Through that work, we want to demonstrate high standards of governance and performance in the Scottish public sector.

The Convener: I am intrigued by your comment about the United Nations—would you have time to look at the European Commission while you are at it?

Mr Black: No one has asked us yet, convener.

The Convener: Although you are called Audit Scotland, you do not perform only auditing functions—looking at the books and checking the figures. You are almost regarded as an organisation that investigates quality. Some of your reports mention areas for improvement. You comment not only on figures but on how things could be done better.

As you have said, we are moving into a period of stringent financial pressures. There will be demands for doing things better and eliminating

inefficient methods of operation. Those new pressures and new demands will bring a new workload. We all want things to be done much better than they sometimes are. If that demand is increasing, how will your organisation be able to sustain quality in the delivery of your service when you are shedding 40 members of staff?

Mr Black: You are right to suggest that we see our role as being one of supporting improvement to the best of our ability—though we must always do that from the independent perspective of auditors and not slip into being management consultants. Barbara Hurst and her team have given a lot of thought to this issue, and I will ask her to talk about how the performance audit programme is now framed around helping to improve on the big issues of the day, and about how we attempt in all our reports to produce practical guidance, with checklists at the back, for public managers to address.

10:15

Barbara Hurst (Audit Scotland): We are very aware that there are always pressures on us to answer every question in the public sector. With the national performance audit programme, we have tried to identify areas in which the risks are greatest and audit can add value. As the Auditor General says, we cannot second-guess experienced managers, but we have tried to use a set of key themes around reducing budgets, the need for investment in big capital projects and the invest to save agenda. We have framed our programme around some of those big issues, and I expect that we will bring the programme back to the committee.

We are very aware that that approach means that we need to work differently. We are keen to contribute to the savings agenda for Audit Scotland in the performance audit programme, but we are also considering how we can do our projects differently and get smarter about scoping them so that they are doable in shorter times.

When we do a performance audit, we are keen to learn from the good practice that we find and to promote that. Members will note from the “Transport for health and social care” report, which we will consider later, that we tried to identify areas in which there are lessons that can be applied more widely across Scotland. Something that works in one area might work elsewhere, although it might have to be adapted slightly. As part of our audit work—I stress the word “audit”, as we are not managers of the services—we try to identify improvements that could be made. As the Auditor General said, we try to include checklists so that non-executives of boards and elected members in local government can use our

recommendations to challenge locally what is happening in their areas.

Mark McDonald (North East Scotland) (SNP): I have a question about audit fees. At the outset of the report, you mentioned that you have reduced audit fees by 5.5 per cent. I noticed from the table on page 32 that the fees paid by various bodies reduced in 2010-11 compared with 2009-10, except the fees paid by local authorities. Why did the fees paid by local authorities increase? Obviously, local authorities are in a difficult budgetary position, and audit is a statutory function, so they cannot turn around and say, “We’re not paying.” What efforts are being made to ensure that the costs for local authorities are kept within a manageable level? Obviously, if audit is a statutory function and the audit fee is increasing, that money will have to come from somewhere else in the local authority.

Mr Black: We are committed to reducing our audit fees significantly across the whole of the public sector over the lifetime of the spending review. The figure is getting on for 20 per cent. We always have a problem at a financial year end, and I am sure that the SCPA will be interested in that. The audit year runs roughly from November to November, so 31 March is an artificial deadline for us. If we were running the organisation as a business, we would not bother terribly much about that deadline, but we must prepare accounts for the public sector. A lot of the issue is to do with the stage of completion of audits, when the charges go out, and when the income comes back in, but we must keep in mind the longer-term issue beyond the financial year—the direction of travel in audit fees, which are significantly down over the period.

Mark McDonald: It would be fair to say that, although the figures on page 32 are an indication of the financial year, they are not necessarily an indication of the overall audit year.

Mr Black: That is indeed so.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I am interested in the results of the quality survey, which are on page 15. One point that stands out is that the responses from health seem to be at such variance with the responses from further education, particularly in the areas of “Economy and efficiency” and the “Effectiveness and quality of services delivered by audited bodies”. The text states that

“These results compare favourably with previous surveys”, although we do not have those in front of us. What is behind that discrepancy, for want of a better word?

Mr Black: That is a good question and it is one that I am asking Audit Scotland, too. I can give a

partial answer. I do not want to sound complacent, because we continue to work on the issue. The survey measures the extent to which chief executives or senior managers of public bodies consider that our work had an impact on the effectiveness and quality of what they do. The studies in the health service tend to be high level and all-embracing, such as the NHS overview or the “Review of Community Health Partnerships”, which is a major piece of work that the committee considered just before the summer recess. Such pieces of work do not impact directly on the audited bodies and often contain challenge messages. Another strand of our work, of which there are examples in the appendix, involves considering clinical areas such as the operation of locum doctors in hospitals, which might not have a direct impact at the high management level. It is right to ask the question, but there are issues around how we interpret the data.

I ask Barbara Hurst to add to that answer without going into a lot of detail.

Barbara Hurst: The results are interesting for us, and we need to understand better what is going on. However, there is a slight discrepancy, although that is perhaps too strong a term. When we do follow-up work and examine the impact of our work, we find that the health sector is probably the most advanced in implementing our recommendations and doing something with them. We are working hard to bring some of the other sectors up to the same recognition of the importance of our work. We need to understand the figures better, but they do not quite fit with the evidence that we have from other bits of our research into the impact of what we are doing.

Mr Black: If I may, I will offer a further comment before we move on. One thing that I did not say at the outset was that I would like to pay tribute to the work of the Public Audit Committee. I have been in my job for many years now but, before I became the Auditor General, I spent a short period running the audit organisation the Accounts Commission before devolution. It used to be a source of considerable frustration and disappointment that our work did not have an impact. The committee's role in follow-through is vital. In other words, we take work as far as we can by producing a report that is evidence based and often raises challenging questions for accountable officers in public bodies in Scotland. It is then for the Public Audit Committee to carry that forward. When we get visitors to Audit Scotland, they are intrigued by the good relationship between us and the committee.

A review is being carried out of our relationship with the Public Audit Committee. I think that the relationship has been great for the past 10 years and that the procedures have worked well. I have

had the opportunity, outside public meetings, to help the committee to shape and focus its thinking on how it does its business, as the reports are often complicated. I hope that, in the course of the review, I have the opportunity to express my views to you on how we can work in the future, which I have not been able to do so far. In the past, the relationship has worked extremely well.

The Convener: Thank you for that. I share your aspiration that we should have the opportunity to continue to work together. Some of the work that has been done has been telling.

Section 23 Reports

“Transport for health and social care”

10:24

The Convener: The next item is on the section 23 report “Transport for health and social care”. Joining Mr Black and Barbara Hurst are Angela Canning, Claire Sweeney and Ffion Heledd, all from Audit Scotland. Sorry, I think that Ffion is not here today.

Mr Black: Ffion cannot be here, as she is unwell. Barbara Hurst will introduce this report.

Barbara Hurst: This report, which was published earlier in the summer, is a joint report by the Auditor General and the Accounts Commission, as it covers health and local government. It looks at the efficiency and effectiveness of transport for health and social care in Scotland. Specifically, we examined how well local bodies such as councils and NHS boards work together to plan and deliver services for local people. We identified areas where potential savings could be made and we have, where possible, included good practice examples, as discussed earlier.

Access to transport to hospital appointments and social care venues is an important service for many people across Scotland and access can be critical in determining whether people get the health and social care that they need. A number of organisations are involved, including regional transport partnerships, councils, NHS boards, the ambulance service and the voluntary and private sector. We found that public sector organisations that are involved in delivering health and social care need to pay more attention to transport as an integral part of the service that they provide. We also considered their scope to use resources more efficiently and save public money without affecting the quality of the services.

I would like to highlight five key issues from the report. This is a service that has not received the attention that it needs. Overall responsibility for transport in this area is fragmented and, in many areas, unco-ordinated. Improvements could be made by having a shared and better understanding of costs, activity and quality and the needs of local people across all the organisations involved in delivering these services. Decisions that are taken in one organisation can have consequences for the services that are provided by another, so it is vital that partners work together. If one body changes its eligibility for transport services or another body changes scheduled appointment times, it could affect a number of providers as well as service users. The

case studies in our report demonstrate pilot projects that show scope for savings and efficiencies but which are not being rolled out across Scotland. Case studies 2 and 4 on pages 18 and 19 of the main report provide indicative savings that can be achieved by better co-ordination, improved scheduling of transport and better assessment of local need.

Secondly, we identified that £93 million was spent on transport for health and social care in 2009-10. Exhibit 3 on page 12 shows the breakdown across different providers. However, that figure is a considerable underestimate. Not all councils and boards were able to provide us with basic financial information, as the transport costs for patients and users are often subsumed into bigger budget heads and not always separately identified. The lack of identification or understanding of spend is a serious barrier to being able to make the best use of available resources.

Thirdly, poor access to transport has a disproportionate effect on people with lower incomes, older people and those with on-going health and social care needs. Decisions about reducing or removing funding from these services can have a significant impact on those groups, but we did not find that the potential effect of such changes is often being assessed or monitored. We did not find that, if something is taken away, care is taken to ensure that services are available in an alternative way. The public sector needs better information about individuals using these services and about the quality of the transport services that it provides.

Fourthly, funding arrangements are complex, which makes it difficult to plan and deliver services in a joined-up way. The voluntary sector provides transport in many areas of Scotland, but the current pressure on public sector budgets means that there is a real risk of reductions to its funding. We found little evidence that councils and NHS boards have assessed what impact reductions in voluntary sector transport funding would have on the people who use those services or that they would be part of a wider strategic review of local services. We had a number of focus groups involving voluntary sector providers and users of services, on which we can provide more information if you are interested.

10:30

The way in which transport for health and social care is scheduled needs to improve. There is scope for more co-ordination and partnership working. Councils and NHS boards should consider arranging transport through a central team. We found the Golden Jubilee hospital to be a good example of what can be done if they work

centrally to provide services—that is in case study 3 on page 18. We recommend that partners should integrate or share services where that represents more efficient use of resources and better services. We also found that staff and people who use the transport services are not necessarily aware of the full range that is available, which can mean some quite difficult journeys or issues for particular people.

The Scottish Government has established a short-life working group on transport for healthcare, which is taking account of the findings in the report. The group is due to report later in the autumn. We are also pleased to note that the Cabinet Secretary for Health, Wellbeing and Cities Strategy accepted all the recommendations in the report when we published it.

We are happy to take any questions that the committee has.

The Convener: Thank you. Did your work cover the emergency services function of the ambulance service?

Barbara Hurst: No. We looked only at the patient transport element of its work. The ambulance service could give us better information about costs and activity, so it could separate emergency services from patient transport.

The Convener: Do you know yet whether the changes to current crewing levels that are being suggested in the ambulance service will have cost implications and whether those cost implications will impact on the ability of the ambulance service to contribute to the work that you were studying?

Barbara Hurst: I suspect that the answer is no, but I ask Claire Sweeney to help on that one.

Claire Sweeney (Audit Scotland): The answer is no, we do not know. There seems to be a separate system and we do not know whether those changes will have any impact on the patient transfer side of the business.

The Convener: When the previous committee examined the Western Isles health service, it was told that people were being kept in hospital because of a lack of access to suitable transport. I do not know whether that was a one-off problem or whether you have come across that elsewhere. Is a lack of availability or co-ordination keeping people in hospital for longer than is necessary?

Barbara Hurst: I remember that evidence and was quite surprised at the strength with which the point was made. In paragraph 38 on page 6 of the key messages document, we give some indicators relating to people being picked up after their appointments. However, I do not think that we have any further information about whether people are staying longer than they need to as in-patients;

we have information only about out-patient appointments.

The Convener: The amount of money that is available for transport for health and social care will be critical to how well that service can be delivered. You have considered out-patient activity, but the costs associated with in-patient activity will determine how much money is available for the rest of the function. Would it be possible to determine whether the lack of suitable transport is being affected by a lack of cash and whether people are being kept in hospital longer than is necessary? If they are, that will have huge cost implications for the national health service, never mind the attendant dangers for the patient of keeping them in hospital for too long and the anxiety and stress that are involved. Is it possible to link the two together?

Barbara Hurst: It is certainly possible. Some of that information would not immediately be available at a national level. In order to get at whether people are in hospital longer than they need to be purely because of the transport issue, you would have to do some sort of survey work across hospitals.

Delayed discharges are patients—often they are older patients—who are kept in hospital for longer than they need to be. There are some national statistics that show whether that happens as a result of waiting for community care assessment or waiting for a care home place. Claire, can you remember whether there is information about the more nuts-and-bolts issues to do with immediate transport?

Claire Sweeney: We considered the information as part of the audit. It is not in the final report because it did not show the extent to which transport impacts on delayed discharges. There is information there, which goes down to information about whether transport is an issue. We felt that we did not have a full enough picture across the whole system to be able to comment.

What has come through, certainly from the field work for the audit, is the potential impact of transport not being arranged as smartly as it might be, the inference being that transport will almost certainly have an impact on whether people are able to get home, or wherever else they need to be, as quickly as they should.

Barbara Hurst: The one health board that has considered the potential impact of transport is the board that includes the Golden Jubilee hospital. None of the other boards has done any work on that.

Murdo Fraser (Mid Scotland and Fife) (Con): Good morning. I want to ask about the issue of organising transport through central departments, which I think is covered in paragraph 37, on page

15 of the report. Over the page, in exhibits 5 and 6, there is the usual excellent graphic demonstration that we are so used to from Audit Scotland about how that works. It is interesting that while in exhibit 5 we see the usual spider's web-type graphic, in exhibit 6, where there is an integrated transport unit, much neater lines of communication are shown. That is an excellent visual demonstration of why having integrated units is so important.

I was interested to read in the report that only two NHS boards organise transport through central departments. Barbara Hurst referred to the Scottish Government's working group on transport in the health service. Will that group look specifically at trying to encourage greater use of central departments?

Barbara Hurst: This is where I regret Ffion Heledd being ill, because Ffion has been acting as an observer on that group. Claire Sweeney may have a bit more information.

Claire Sweeney: As far as we understand it, that group is taking account of the recommendations and issues that were raised in the report. The greater use of central departments is a key issue, so the group must be covering that as part of its work.

Murdo Fraser: That is helpful.

On the related point about councils, you say that 18 councils have developed integrated transport units or are in the process of doing so. Presumably, the remaining 14 councils are not doing that. Is anything being done to encourage them to go down the same route?

Barbara Hurst: That takes us back to our earlier discussion about follow-up. As part of the report, we have a checklist about expectations of the situation locally, and we will ask our local auditors to see what each council is doing. We should have some idea, not immediately but over time, about what else is happening in that area at council level.

Claire Sweeney: The situation is much more complicated for the councils. There are potential complications, given the different departments that can be involved, and the links between the education departments and the departments that look after social care issues.

George Adam (Paisley) (SNP): Such transport is important to me because I have worked with many organisations in Renfrewshire that use it. One of my concerns is that many public and voluntary organisations are doing the same job and offering the same form of transport. As the convener was right to say, we now live in a different economic climate.

Some regional transport partnerships work, but my concern is that some do not. Unfortunately, my area has the monolith that is the Strathclyde partnership for transport, some of whose services could be a wee bit better. People will go to a local-authority-run disabled centre, for example, on social work buses and MyBus services, which were previously called dial-a-bus.

I am concerned that we cannot even find out from an organisation such as SPT how much running dial-a-bus or MyBus costs in our areas. Strathclyde has almost a fleet of vehicles for vulnerable individuals, so we must be able to work the system an awful lot better.

I agree with your comment on page 23 that

"Transport planning is fragmented and responsibilities are unclear"—

SPT is a perfect example of that. Given that, it is difficult for us locally to achieve accountability and to get SPT to change, as it is a monolith.

Barbara Hurst: I will say something in SPT's defence.

George Adam: That will be a first.

Barbara Hurst: It is an unusual position to be in.

We found that SPT was the regional transport partnership that was trying to address some of the issues that have been raised. The others were further off the pace. All the partnerships are starting to consider the issues, but SPT has looked at them longest.

George Adam: I am talking about dealing with the transport situation when many local authorities and other organisations are involved. I will give a perfect example of that. We in Renfrewshire Council undertook a review that showed that we could offer a 24/7 taxi service for people in Renfrewshire that would be cheaper and better than dial-a-bus but, because we are part of SPT, we could not make that change. As your report says, better ways of working exist—I have given an example. SPT is being brought to the party kicking and screaming.

Barbara Hurst: We say in the report—and we agree with you—that what is involved is a partnership. Lots of bodies other than regional transport partnerships are involved, so the problem is being tackled collectively. I assume that members of a partnership would consider together something that was more efficient and effective and which cost less.

George Adam: In a perfect world, we would expect that.

The Convener: I will continue to talk about Renfrewshire, which George Adam raised. Exhibit

4 on pages 14 and 15 shows that Renfrewshire Council spends £4.8 million, that Inverclyde Council spends just under £700,000 and that East Renfrewshire Council spends just over £700,000. Renfrewshire Council's population is about the same size as that of East Renfrewshire Council and Inverclyde Council added together, so why does such a disparity in expenditure exist? The areas' demography and social profiles are not that different. East Renfrewshire has a large affluent hinterland, but Inverclyde and parts of East Renfrewshire do not differ much from Renfrewshire.

Barbara Hurst: We deliberated long and hard on whether to include exhibit 4, because the figures for some areas are clearly underestimates. We tried to identify councils for which the figures did not capture all the costs, and you have just identified councils to which that applies.

Liam McArthur: The convener raised issues that relate to the Western Isles a while back. As the member for the Orkney Islands, I will stay with that theme. I found the report extremely interesting, but it does not contain many case studies of patient transport issues in island areas.

The figures for the island areas in exhibit 4, to which the convener just referred and which show the spend of the health boards and councils where those figures are available, are relatively high in a per capita sense. Is there anything in your report to suggest that the health boards and councils could achieve greater efficiencies and better use of patient transfer, either through greater use of telehealth and telecare or better organisation of appointments where transport is unavoidable? In Orkney, that would probably relate to the transfers through the relationships with NHS Grampian; Shetland would be in a similar situation. I suspect that there are also probably internal travel issues, given that there are three sizeable archipelagos that pose different challenges to the health boards.

10:45

Barbara Hurst: Orkney NHS Board is one of the two that have a central unit. In a sense, it is interesting that only Orkney has that, while Western Isles and Shetland do not, despite having the same issues.

You asked a specific question on telehealth. We will publish a report in October that looks at that issue—avoiding the travel—in more detail; it has some interesting findings. Unfortunately, you will probably not hear our evidence on that as you are not a permanent member of the committee.

Claire, do we have anything else on the island boards in particular?

Claire Sweeney: I am sure that we have some examples of innovative practice. One thing that came through across the piece from those in the voluntary sector was a sense of frustration and feeling that they could offer a lot more, and I am sure that we have examples from the island boards in particular where they have done that. I am struggling to recall them off the top of my head, but the voluntary sector across Scotland certainly feels frustrated and that it could do things slightly differently. The point was made earlier about voluntary organisations proving that they can do things in a more cost-effective way or having an idea locally that might work better and then having discussions with the councils and the NHS boards about how to take things forward. It is definitely a feature of the situation, and there are certainly good examples in the islands.

Liam McArthur: I would welcome more information on that, if you could provide it either to the committee or to me.

Humza Yousaf (Glasgow) (SNP): Throughout, the report mentions a lack of information, limited information and a lack of data. To me, that indicates that the issue has festered for not just a number of years but possibly even decades. You touch on the issue and say that it is largely due to the fact that there is not central, joined-up working between the various different bodies. That is understandable, but it also suggests that there has perhaps been a lack of accountability over the years, if not decades. This might be a somewhat unfair question to ask, but what are the other reasons for the lack of information on top of the lack of joined-up working between the central bodies? Has there been a political decision not to interfere too much with services because it can be a touchy subject for people to get involved with? Why has the situation been allowed to fester over the years?

Barbara Hurst: I suppose that, if you look at the situation purely in terms of spend, transport for health and social care is not a high-spend area. We often choose to look at areas that involve big money; this time, we chose to look at something that we knew had such a significant effect on individuals. This comment goes well outside any evidence that we have, but it may be that the issue has not been the biggest to look at. Nevertheless—the convener alluded to this earlier—if we do not get the issue sorted properly, a lot of perverse things happen elsewhere in the system. For example, people may not turn up to their out-patient appointment just because the bus does not turn up to pick them up.

There are difficult issues, which are intractable in lots of ways, but given that health and social care need increasingly to be managed together there are a lot of opportunities to start managing

the transport for some services together too. To date, a lot of the work around that has been largely around individual budget heads but, with the move towards better integration of those services, there is no reason why bodies could not get their budgets aligned as well, so that they could make more efficient use of their money.

Humza Yousaf: Does that give Audit Scotland a wider focus to examine those areas that do not have a huge spend or a big spend? You are suggesting that there is a lot less accountability in those areas, and I imagine that they would add up to form a significant part of the public budget.

Barbara Hurst: Earlier, I mentioned two of the things that we use to inform our selection of topics. Two others are partnership working—we absolutely have to consider that, because that is the way in which a lot of services are being delivered—and the issue of user focus. Although an area might not necessarily involve the biggest spend, if we think that there are particular issues for subsets of the public, we might well focus on it—that comes back to your question about whether the public have a say in what we do. That is a judgment call. I think that I said previously that it is an art, not a science. It is an important area to consider, though.

Mr Black: Can I add to that? Linking back to the conversation that we had around the annual report and impact, I point out that, at the back of the report, there is a checklist—that is quite a typical feature now. We would strongly encourage the regional transport partnerships and the councils to consider that checklist and ask themselves those questions. That would give a bit of a push to the issues that we are discussing.

Gil Paterson: I know that you have given a health warning about how far you can drill in but, apart from examining spending in the report, do you examine cost? In other words, when things are not joined up, do you examine the cost impact of, for example, one person not turning up for an appointment, in terms of the clinicians waiting for that person and the associated downtime? Have you considered that, or should the committee consider that?

Barbara Hurst: We would have loved to consider that, but the information was not available for us to start trying to cost it. Certainly, in future reports, if we can get access to good information about how many appointments were missed and what the implications were for the way in which doctors and nurses use their time, it would be possible to do some modelling that would tell you the opportunity cost—it would be opportunity cost, not a saving, because the staff are there anyway. However, the information did not allow us to drill down that far into what the cost might be of things not happening.

Mark McDonald: You have identified that we are dealing with a case of too many cooks. Will the proposals that are on the table to bring about more integration of health and social care provide us with a means of resolving some of the problems, particularly those around communication between organisations? That theme seems to be emerging. At our previous meeting, at which we dealt with the community health partnerships report, we discussed the difficulties that seem to exist between local authority social care departments and health boards and the lack of communication and joined-up working that exists in that regard. Do you see the integration agenda as a means of solving some of those problems and bringing about the positive outcomes that you are looking for?

Barbara Hurst: Yes.

Mark McDonald: Short and sweet. The next one might not be quite so.

You said that you wrestled with the idea of not including exhibit 4, but I think that it is very helpful. All the local authorities, bar three, provided estimated figures, and four were not able to give you any information at all. That causes me a great deal of concern, as local authorities ought to be able to say where every pound is being spent, because every pound is vital in the current economic situation. Is there a reason why certain authorities were not able to give you any information, or even an estimated sum? Do you intend to go back to them at some stage to try to get that information?

Beyond that, local authorities have their own audit and scrutiny committees. Do you intend to flag up to local authorities that their audit committees might want to look at particular spend in those areas? They might drill down to a level that you were not able to reach.

Barbara Hurst: I will pick up on your last point, and then ask Claire Sweeney to tell us about those councils that could not give information.

We would love local audit and scrutiny committees to drill down and look at some of our reports. This is a classic area in which that would be a way to achieve some local leverage in terms of driving improvement.

Claire Sweeney: The information was not provided. We spent quite a long time going back and forth, trying to validate the data and ensure that the correct people were being approached for it, and trying to get the final returns signed off. The process of validation went on for months beyond the point at which we had asked for the initial data, and the information was still not provided. There is definitely an issue, in that people do not have enough information about the cost, quality and

activity around those services, and authorities certainly need to follow that up locally.

Mark McDonald: My concern is that when local authorities come to set their budgets, how can they be sure that the money that they are allocating to a service is what is needed? They could either be spending too much on it or, conversely, not enough.

It concerns me that certain authorities are not giving you the information, because that raises the question of what information they are giving to the councillors who are making the decisions locally on those budget headings. Local audit committees should be taking an interest in this area and trying to get some of that information.

The Convener: I want to return to those figures. The issue is not just that some councils are not providing the information—frankly, it looks as though the information that has been provided is totally useless or completely inaccurate. One begins to wonder whether councils either do not know what is going on, or are not doing their job properly.

I use Renfrewshire Council as a benchmark because it is the council with which I am most familiar. It is, allegedly, spending nearly five times as much as North Lanarkshire Council, which is at least twice the size. Either Renfrewshire is just throwing good money after bad, or North Lanarkshire is not doing its sums and accounting properly and is not in a position to make accurate judgments.

City of Edinburgh Council's spending is not that much higher than that of Renfrewshire Council. The whole thing is completely inconsistent. I know why Audit Scotland struggled with councils not providing the information—frankly, it beggars belief. It is almost worse than useless.

That is a criticism not of Audit Scotland, but of those who are compiling the figures and delivering them to you. There is something badly wrong here.

Barbara Hurst: We do not take it as a criticism of us—thank you very much.

We really wondered whether that information was worth including; Claire Sweeney underestimates the grief that the team experienced in trying to compile the table. However, although it begs more questions than it answers, we decided—for the reasons that the committee has been discussing—that we would put it in the report. It shows that there is quite a lot of work to do locally to identify exactly what is spent. I suspect that a lot of the figures do not include fleet costs or anything like that, because that information will be held somewhere else.

11:00

Drew Smith (Glasgow) (Lab): To what extent did the scoping report look at how to prevent unnecessary journeys, which was mentioned earlier? Will you elaborate on the extent to which you were able to look into that? Did you get a sense that it was a serious consideration, particularly on the health board side? I notice that Traveline Scotland is mentioned in relation to a number of health boards, but health boards continue to make decisions that are pretty challenging for people who want to use any means other than patient transport. I am thinking of the services that are being moved to Yorkhill, which will eventually be moved to the Southern general. There are people who could get a bus to hospital, but they will not be able to do so in that case as it is simply not possible to get a bus to Yorkhill. How far are health boards aware of that issue? Do they have any plans in place to tackle it consistently?

Barbara Hurst: I will pick that up, although Claire Sweeney might want to elaborate.

We looked at the process—in other words, we considered unnecessary travel from the point of view of the type of transport that individuals used. We did not look at whether they did not even need to go to hospital in the first place—that was way outside the scope of our study, which was on the process.

A good example that we included in the report is the work that Forth Valley NHS Board did to ensure that there were bus routes that went to its new hospital. The board did the right thing by trying to ensure that, at local level, the hospital was accessible. A lot of people will want to go to hospital by bus and not drive, for whatever reason. That was a good example of where such planning has worked well but, as you know, there are other examples where it has not worked so well. It requires discussion with private sector bus operators, which brings in another complexity. Do you have anything to add, Claire?

Claire Sweeney: That is right. It is a case of the issue not being made enough of a priority and not being thought about early enough in the planning process. Although there is the example of Forth Valley NHS Board seeing that as a priority and investing in such work around its new build, there are examples of new builds where transport has not been considered early enough, which has had consequences for people who need to use those services. The situation varies; it goes back to whether the issue is seen as a priority for people.

Whether health boards see transport as their responsibility, given the role of the ambulance service, is certainly an issue. There is an interesting dynamic there, with health boards starting to realise that provision for transport to

services is an important part of the work that they do. That change is starting to happen, but the situation is variable across Scotland.

Drew Smith: It is interesting that you raised the issue of discussion with private contractors about bus routes, which takes us back to regional transport partnerships. My interpretation of the situation is slightly different from that of other members, particularly as regards what Barbara Hurst said. It seems to me that there are differences across Scotland because we have different models of regional transport partnerships. There might be some areas of the country where the kind of work that is possible where there is a more developed partnership is not happening.

Health boards can try to integrate transport services within their areas—that is all to the good and we would encourage that. Equally, we would hope that councils would try to integrate their various transport needs. However, to return to our discussion around CHPs, if we leave health boards and local authorities—some health boards have to deal with a number of local authorities—to come to a more integrated approach across health and social care, it ain't gonna happen unless a third party is involved, which would seem to me to be the role of some kind of regional transport planning organisation. Is that fair?

Barbara Hurst: Regional transport partnerships certainly come into their own where there are cross-border appointments. A number of the health boards run regional and national services, access to which would not be picked up for all patients by the local transport arrangements. It is an issue that has to be addressed not just at local level, but at regional level.

The Convener: I draw the discussion to a close and thank the Audit Scotland team for their evidence, which we will reflect on later in the agenda.

“Scotland’s public finances: addressing the challenges”

The Convener: The next item of business is another section 23 report from the Auditor General, for which he is joined by Graeme Greenhill and Michael Oliphant.

Mr Black: As I am sure members know, “Scotland’s public finances: addressing the challenges” was published last month. It follows on from an earlier report, “Scotland’s public finances: preparing for the future”, which we produced in November 2009. Given the challenges that will be facing public finances for the foreseeable future, it must be likely that Audit Scotland will continue to produce interim reports on how the public sector is managing those challenges.

I emphasise that this report provides a high-level overview, covering the whole public sector. We will do our best to answer any questions that members might have, but it will be difficult for us to drill down too far because of the nature of the report. However, I am sure that Graeme Greenhill and Michael Oliphant can help us with that.

I will touch on the three main themes in the report. The first is the current financial climate and how much money is available, the second is an overview of some of the main cost pressures, and the third is what public bodies are doing to address the challenges that are ahead. I will not dwell on the first part, because everyone in the room will be well aware of the challenges that face the public sector, but I will remind members of the headline numbers. Through the public spending review period to 2014-15, the Scottish departmental expenditure limit budget, which is the money that the Scottish Government controls, will reduce by approximately £3.3 billion, which is 11 per cent. That is a big turnaround from the first 10 years of devolution in which each year there was real growth of something over 5 per cent. We have certainly passed a significant tipping point in the Scotland’s public finances, and all the expert opinion is that we are facing a period of difficulty for many years to come.

All parts of the public sector will have less to spend in 2011-12 than they had in 2010-11, although the level of budget reduction varies among the spending areas. In exhibit 6 on page 13 of the report, we have tried to give an account of the main areas of spend—called the portfolio level in Government jargon—and what is happening to each of those. We will do our best to answer any questions about what is happening there if members are interested in that.

I will concentrate a bit more on the cost pressures in the public sector. The November 2009 report was particularly helpful in bringing together for the first time in one place the build-up on the cost side of the public sector. That was a serious challenge for us all. We have tried to update that to the best of our ability in the new report, and that might be particularly useful in advance of the publication of the spending review later this month. That section starts on page 16.

We have categorised the cost pressures into six areas. They are not mutually exclusive; there are overlaps. We have identified demand pressures, finance pressures, workforce pressures, investment pressures, pressures in maintaining existing assets, and environmental pressures. It behoves me, as the Auditor General, to give bad news and I am afraid that, in this case, the picture is not great. There is a very serious issue to do with how the public sector will cope with the

challenge against an 11 per cent reduction in DEL over the spending review period.

I will remind committee members of some of the pressures. A significant pressure—and one that has been with us for a few years now—is the ageing of the population. The number of people who are aged 75 or over is set to almost double by about 2030. That will have serious implications. The ratio of older people to people who are active in the workforce is currently 31:100. That will rise to 40:100 by 2030.

What implications will there be for our public services? Fewer people will be around to deliver care to older people who need it. Fewer people will be contributing to pensions. Fewer people will be contributing significantly to tax revenues, national insurance payments, and so on. A larger proportion of tax revenues from people of working age will be needed for pensions and national insurance for others; those working people will be contributing more to national insurance, and that will reduce their disposable income. A greater proportion of tax revenues will probably have to go on paying for care for people in need. It is a very serious issue indeed. A question that I am entitled to ask—although I cannot provide a solution—concerns the extent to which we can continue with our existing models of care provision against the background of a scenario that is approaching fast, or is already here.

Demand for services that are free at the point of delivery continues to rise. In round terms, we estimate that they cost about £870 million at the moment. I will consider one example: we produced a report on the national concessionary travel scheme a little while ago, in which we forecast that the uncapped cost of the scheme—in other words, the cost if the scheme is not altered but carries on indefinitely—could reach anything between £216 million and more than £500 million by 2025. Assumptions were made in arriving at those figures but, nevertheless, they give an indication of the challenges.

Some other demands are difficult to control. In higher and further education, we had 8,000 more students in 2009-10 than we had in 2008-09. That was partly a result of the lack of employment opportunities, but I presume that it was also a result of young people and others coming back to study because they felt the need to maximise their marketability through training. That has implications for the funding of higher and further education.

There have been targets for efficiency savings for a number of years now. The previous Government, and the Scottish Executive before that, imposed targets for efficiency savings on the public sector. By and large, the results reported by the public sector are encouraging. Efficiency

savings have been identified. That has been difficult for us to audit because of the quality of the information but, as we move further into the period of retrenchment, the risk must increase that efficiency savings will have an impact on service delivery. We need to be aware of that.

Inflation is much higher than it was expected to be when plans for public expenditure were being prepared. For example, in the health budget, spending on drugs—whether administered in hospitals or issued by general practitioners—tends to rise by between 4 per cent and 11 per cent on past trends. That is significant inflation, and it must be accommodated in the budget. Although that budget is increasing marginally in cash terms, it is not taking full account of pressures building up in the system.

All public bodies are witnessing reductions in other sources of income. User charges and fees are tending to go down. We give the example of what has been happening with asset sales in councils. In 2006-07, local authorities raised almost £500 million for capital spending from asset sales. By 2010-11, the estimated figure was under £150 million. That represents quite a big change.

There has, quite rightly, been much interest and talk in the media about public sector pay freezes. The pay bill accounts for about 60 per cent of the revenue budget of the Scottish Government. The point that we are trying to make in this report is that even a pay freeze will not prevent the pay bill from going up because it applies only to the annual cost of living rises that people generally look forward to and does not affect movement up scale points. In parts of the public sector, some quite complex and expensive pay deals are in place. Indeed, in the past, I have reported to the Public Audit Committee on the costs of the consultant contract, the general medical services contract and so on, which are substantial in the Scottish public sector.

11:15

Public sector pension schemes are under very significant long-term cost pressures. In a report that we put before the last Parliament on this issue, we described the increases in employers' contributions. That has been followed by increases in employees' contributions and, of course, the UK Government has recently announced that it will accept the recommendations of the independent Hutton commission. It is too early to say what impact all the pensions changes will have, but this is certainly a very large cost pressure.

I am sure that members are well aware that, as part of the public spending reductions through to 2014, capital spending will take a particular hit, with a 36 per cent reduction over the period. As I

said earlier, income from asset sales is also coming down, which I think will mean a severe retrenchment in public spending. At a time when it is facing such a reduction, the Scottish Government has 182 major capital projects planned, with a combined estimated value of somewhere in the range of £13 billion to £15 billion. It has committed to using the non-profit-distributing private finance method and has earmarked £2.5 billion in what is in effect a top slice for that but, nevertheless, there is clearly going to be a significant shortfall.

There are also some signs that local authorities and others will try to use revenue funding to compensate for the reduction in capital allocations, and auditors will keep an eye on that issue to ensure that whatever financial strategies are put in place are sustainable in future. In the report, we comment on the build-up of private finance initiative commitments, which will reach more than £1.1 billion in cash terms by 2024-25.

In our last report, we made quite an issue of the backlog of maintenance and repairs in the Scottish public sector. Perhaps I should reinforce what I said to the committee back then, because I feel quite strongly about this: this is not just an accounting issue that we keep coming back to. In effect, what we are doing is using assets and depreciating their value. Quite frankly, some of them are getting past their usable condition and we are simply passing the problem on to future generations. It is an intergenerational transfer issue. In the past, we have talked about the need to spend about £2.25 billion to eliminate the defects on Scottish roads; about the costs of removing the backlog of maintenance of council-owned property assets, which amount to £1.4 billion; and about the NHS estate, which needs more than £500 million. I could go on, but all I will say is that this is a very significant problem and intergenerational transfer issue that we need to be aware of.

Finally in this particular section, we outline certain environmental issues. In reports that we have produced on energy, we have found that public sector spending on energy increased dramatically by 21 per cent in real terms between 2006-07 and 2008-09. However, energy use has not declined. Of course, that increase largely reflects trends in energy prices. All expert opinion, including the UK Department of Energy and Climate Change, estimates that fuel costs will continue to rise over the next 10 years by as much as 35 per cent on average. That would mean, for example, that a litre of fuel would cost 162p. That is another pressure that is very difficult to control, because it is difficult for a lot of public bodies such as hospitals to contain their costs. It all links back to my earlier pessimistic comment about the decline in capital spending because, with the

likelihood of a significant reduction in capital spending, it will be more difficult to sustain a spend-to-save approach to energy bills. The Scottish Government has set some ambitious energy targets, the cost of meeting which over the next decade has been estimated by the independent budget review at around £8 billion.

I will come to a halt very soon, but I just want to point out to a committee that is coming to some of these issues for the first time some of the huge cost issues that are set out in the third part of the report. I will be very brief and we will, of course, answer questions afterwards.

With regard to addressing these challenges, we note that pretty well all public bodies have managed to balance the budget for the current year. However, all the anecdotal evidence that I am getting suggests that things are getting very tough now. There are some risks out there, which the auditors will monitor.

We have not seen much of an attempt to try to rethink the core priorities within the Scottish Government's national performance targets, the single outcome agreements and so on and to put money where it is most needed. It occurred to me that transport for health and social care is a classic example of this. We do not even know what money is spent on it, but we do know that public bodies are cutting flexible budgets where they can to meet this balanced budget target. We do not have any detailed evidence on this but, unless a priority-based approach is taken, we will be trying to achieve marginal reductions to balance budgets at a time when more than 60 per cent of costs are staff costs. That will be quite difficult to sustain in the longer term without rethinking service delivery, particularly with new challenges such as the ageing population.

In the report, we describe how public bodies have tended to concentrate on reducing staff numbers as quickly as they can through voluntary early severance agreements, retirements, natural turnover and so on. That can take one so far, but it is not straightforward. For example, public bodies have lost quite a lot of senior staff in key areas such as finance. When I was a local authority chief executive, which I was for many years, the first question I asked myself when I was thinking about joining a local authority—which I did twice—was, “How strong is the finance function?” Did it have a good strong director of finance who sat alongside the chief executive and knew the numbers well? A lot of experience has gone out the door in a short time just as we have reached this tipping point. Good workforce planning has to look not only at how old people are and whether we can get them out the door quickly but at the skill mix that will be needed. That will require finding a new way of thinking about these things.

In conclusion, we have set out one of our checklists in appendix 4 on page 38, which we hope will help councillors, non-executives and public sector leaders in general to ask the right sort of questions in their own organisations.

The Convener: Thank you very much. That was a very thorough and sobering presentation. In many respects, what lies before us is frightening. In which of the next few financial years will we see the greatest cuts in public expenditure?

Mr Black: At the moment, the greatest reduction will happen in the current year. In fact, exhibit 4 on page 10 of the report shows that we are currently in that situation. As members will see, the dark blue line, which is the lowest on the chart, declines steeply between 2010-11 and 2011-12; gets slightly shallower between 2011-12 and 2012-13; and then declines again towards the end of the spending review. There is no doubt that the reductions in the Scottish DEL budget will be significant over the period. Of course, it remains to be seen how the spending review, which the Scottish Government is about to announce, will be shaped through to the end of the spending review period.

The Convener: Although you are saying that the most significant cut is in this financial year, exhibit 4 shows a more shallow decline in 2011-12 and then a very steep decline. In fact, if we are basing our analysis on exhibit 4, bad as the situation is this year, it is not as bad as it is going to be next year and the year after.

Graeme Greenhill (Audit Scotland): I think that you are correct in absolute terms. The budget in 2014-15 will be lower in real terms than it is in 2011-12 but, as Bob Black said, in percentage terms, the cut is bigger between 2010-11 and 2011-12 than it is in subsequent years.

The Convener: Are we living beyond our means?

Mr Black: I would refer you back to my comment about the build-up of demand pressures. The central question is how to set out priorities so that the public services that we deliver are of the right quality, are delivered to the right client groups and are affordable over the longer term.

The Convener: But there is a real danger that the promises that are being made and the aspirations that we have are simply not affordable.

Mr Black: There is certainly a build-up of spending commitments. In this report, we have evidence of the extent of that, which is very significant.

The Convener: You said that public bodies are addressing this problem in two ways: a pay freeze and redundancies. However, redundancies have both short and long-term costs. When people go

out the door early, under early retirement deals, there is a continuing cost to the public body of subsidising those deals. Presumably there is also a cost to the pension fund. What we have seen in the past is that some of the people who go out the door under such deals then come back into the public sector in different disguises—working for different organisations doing slightly different things but, nevertheless, still clearly capable of carrying out a productive role. I think that I have raised this issue before, but has any work been done on the costs of redundancy and early retirement and whether the short-term fix might lead to long-term problems?

Mr Black: As you might remember, not that long ago we produced a report on the overall position with the public sector pension schemes in Scotland, so that is on the record. We would be very happy to offer a refresher briefing on that for the committee if necessary but, of course, it predated the Hutton report and other changes to the schemes. It highlighted—we have reproduced the high-level numbers in the report—the very significant cost that will have to be met of sustaining public sector pensions, although it is a moving picture and the change from the retail prices index to the consumer prices index is making a significant difference to the actuarial estimates of the liabilities.

On how public bodies take decisions on these matters, it is fundamentally a best-value question—if people are being given payments to release early before the normal retirement age, value for money should be demonstrated. In other words, it should be demonstrated that, within a reasonable period, there is a payback that is sustained into the future. I would expect auditors to satisfy themselves that that was happening and to report it if it was not happening. We do keep an eye on those things.

People have terms and conditions of services, which both the employer and employee signed up to. It would be a breach of contract to do anything other than honour those requirements. It is a tough issue for employers to address.

The Convener: You suggested that capital spending could be down by, I think, 36 per cent. You said that the Scottish Government has 182 projects, with a value of between £13 billion and £15 billion, but you indicated that there is a significant shortfall. Are you suggesting that the money is not there for all the projects that are in the pipeline?

11:30

Mr Black: I am not suggesting that. All that I am saying is that, at present, the Scottish Government has more than 180 major capital projects planned

or in progress, the estimated value of which is £13 billion to £15 billion. Given the scale of the reduction in capital spending that will be required, there must be every prospect that the Scottish Government will have to think seriously about its priorities and about which projects will go ahead and which might have to be put on the back burner, as the saying goes.

The Convener: So it might be that not all the projects that are on the books are affordable.

Mr Black: That is highly likely.

Colin Beattie: I was a bit alarmed by section 91 on page 29, which is on shared resources. Many councils anticipate substantial savings from arrangements to share resources with neighbouring councils. The statement that

“evidence of savings is limited”

is a bit of a worry because councils are investing quite a lot of money in such measures. I know of councils that are putting several million pounds into shared services in anticipation that, down the line, there will be a long-term benefit. It is a worry if there is no evidence so far that that level of savings will be produced.

The paragraph distinguishes between improving the efficiency of front-line services and back-office functions. Obviously, both present opportunities to save money. Is there evidence that greater savings can be gained by improving the efficiency of back-office functions compared to the delivery of front-line services, or is that immaterial?

Mr Black: It is fair to say that we do not have the audit evidence for that, so I am sorry but I cannot help you terribly much on that.

On the first part of your question, the report mentions the business case for shared services that was produced by seven of the eight Clyde valley councils. The business case, which was produced recently—in August of this year—proposed that the councils could generate savings of £30 million a year after five years, but that that requires an up-front investment of between £28 million and £31 million over the first five years. That significant initiative is currently the subject of discussions on whether and how it can be implemented. However, we can see that, even if the project goes ahead and the business plan holds together well, it will be some time before there is a net saving. That is the sort of problem that the public sector often faces—up-front investment is needed to generate savings.

I will take a flyer and say that, in relation to front-line services, there is not really scope for significant savings in the administration costs of delivering those services. What really matters is the big spend on the front line where, understandably, people are concerned to maintain

standards of service. It is interesting that the major services of education and social work are already having significant reductions in staffing, as is itemised in part 3 of the report. That will have an implication for the sustainability of the service models in the longer term.

Colin Beattie: The report highlights the substantial element of risk in sharing services. Councils are making huge investments in shared services, yet the example that you gave involved the possibility of a £30 million saving after a period, but an up-front investment of £29 million or £30 million. That does not seem a huge return from a sharing of resources over a period, given the risk of committing that money up front and the fact that public service contracts do not always seem to generate the benefits that one would hope for—there does not seem to be much of a margin there. Will Audit Scotland focus some of its efforts on ensuring that councils are getting value for money from shared services? As I said previously, a lot of councils see it as a significant way forward through which they will garner huge savings, but there are risks involved.

Mr Black: It is an area that we will continue to monitor through the audit process, but the decision on whether to opt for the shared services model is a policy matter for the bodies concerned. We can play a role in providing an independent audit and commentary on how well the business plans have been put together and whether the savings have been achieved. However, as I remarked earlier and as is reflected in the report, there is not much evidence—your question reflects this—that such initiatives will produce substantial savings in the short term.

The Convener: That highlights a real problem. It is not your responsibility and we, as members of the public and elected members, are not directly involved in those decisions. Nevertheless, we are all investing a great deal of faith in the ability of those organisations to get it right. You suggest that there is not a lot of evidence to support the model and Colin Beattie is quite right to talk about the risks. The problem is that, due to the nature of the job that you are responsible for, your main comments will come after the event. It is worrying that we are entering a process from which, we are told, there are huge savings to be made, but it appears that there is no evidence of that and we will not be able to challenge the people who make the decisions until after they have been made. By that time, huge amounts of money could have been squandered, jobs will have been lost and services will have been affected. Perhaps that is something for the Government rather than Audit Scotland to consider.

Murdo Fraser: My question follows on neatly from the convener's comments. On page 33, from

paragraph 106 onwards, the report talks about the need for strong leadership. For some reason the issue of leadership has been very much on my mind over the past few days. If we are to deliver financial savings, there will need to be strong leadership in the public sector in areas such as local government. I was taken with what you said, Mr Black, about your previous experience in local government. Are the skills there? We have seen some evidence from the public sector that there is a tendency to opt for what we might call the easy hit when it comes to making cutbacks. Perhaps a more considered, long-term strategic approach is required. Do we have people in position with the ability to take that more strategic approach?

Mr Black: I will be bold in my reply to that question, as it merits that. When I use a phrase such as “strong leadership”, I am talking about elected representatives and chief executives working together. I am absolutely convinced that, both within our political parties and within the senior levels of executive leadership in public bodies, there is bags of talent. Since our first overview of public finances, I have spoken at lots of meetings and conferences and I have attended dinners at which I have interacted with chief executives and so on. There are plenty of people out there with good ideas and a commitment to the public sector, but we need to find somewhere where we can get a good conversation going about how we—all of us together—will face up to the challenge on delivery issues that Scotland faces. Preventative spend is a very good example in that context.

We will produce a report on telemedicine and telehealth in Scotland—Claire Sweeney has been involved in that. That report will clearly indicate that investment in that area can deliver good outcomes and savings, but spending will need to stop in other areas. The number 1 issue that we will face will be the challenge of deciding where to stop spending within a framework of strong leadership and priority setting. We will somehow need to find a way of having a conversation about that in which it is recognised that we are all in this together.

Murdo Fraser: That is a very interesting response. You talk about the need for a conversation. Are there enough opportunities for those conversations to happen? Are local authority chief executives regularly coming together to discuss how they will tackle the issues?

Mr Black: Yes. Conversations happen in many places. I am sure that there is a lot of activity in the Government at the moment, and chief executives get together quite regularly in the local government and health service constituencies, for example. There are places where such conversations take place, but we need to bring the

whole thing together somehow and say, “What does this mean for our road map for the future for Scotland?”

Mark McDonald: All public bodies will have to consider seriously priority-based budgeting. I note my interest as a member of Aberdeen City Council, which has gone through priority-based budgeting. It decided to do so. It was realised that the salami-slicing approach would perhaps yield an annual saving, but would not help to reshape the organisation’s finances and structures to cope with the pressures that are coming further down the line. It is still denied in some quarters that what is needed is the fundamental reorganisation and reform of services, as opposed to simply a continual salami-slicing approach.

I wonder about the budget-setting process. In Aberdeen, we decided to start the budget-setting process much earlier than had previously been the case. It used to be that a couple of weeks before the budget meeting people would be presented with papers that said how much money there was to play with and gave a representation of the savings that could be picked from. There was often very little flexibility available. We decided to start the budget-setting process much earlier and involve external organisations and partners in it. What has developed from that, alongside the priority-based approach, is a much more bullet-proof budgeting process in which people drill down much deeper into the budget headings.

Are other local authorities following that approach or are there still madcap last-minute dashes to set budgets that will balance? In the current situation, we need to start the budget process earlier and move to a priority-based budget approach across the public sector. The old ways of salami-slicing at the last minute will not cut it.

Mr Black: I will answer the second part of your question first, then the first part.

On what is happening out there now, the data for the report were collected around the turn of the year into the early months of this calendar year and things are, of course, changing so fast that that picture is already out of date. We do not have detailed information about every public body in Scotland. The information that a sample of 47 public bodies were willing and able to share with us at that stage in the process was used. As we say in the report, it is clear that they have done most in the workforce area, through freezing vacancies, voluntary early release schemes and so on. That must be the case, as that is where 60 per cent of the cost is, so there has been a lot of activity around that. There is less evidence of people thinking seriously about service redesign and repackaging. Although there are some good

examples of that throughout Scotland, we do not have a comprehensive picture of it.

11:45

Mark McDonald: The convener alluded to the voluntary severance issue and spoke about a quick fix. In cases where voluntary severance is not tied to a reorganisation, restructuring and reform agenda, it could potentially be just a quick fix. If people do not get in, get their hands dirty and start to fix structures in the council, those two things cannot be tied together.

Mr Black: I agree with that statement and build on it by reminding members of my comment on the risk of losing key skills at a challenging time.

Humza Yousaf: What do you think the impact of the Christie commission will be on the findings?

Mr Black: The Christie commission document is interesting. I enjoyed reading it and the independent budget review report before it, to which our report refers. However, the response to Christie is essentially a policy matter for the Scottish Government, so I am not in a position to help you terribly much with an answer to that question.

The Convener: If that is all, I thank the witnesses very much for their contributions. There is no doubt that we will come back to what we have been discussing. There are big challenges for the committee, the Parliament, the Government and all public sector bodies—and a fairly stark future—ahead of us.

We will now move into private session.

11:46

Meeting continued in private until 12:13.

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e-format first available
ISBN 978-0-85758-740-4

Revised e-format available
ISBN 978-0-85758-753-4

Printed in Scotland by APS Group Scotland
