



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 20 June 2012

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PUBLIC AUDIT COMMITTEE
10th Meeting 2012, Session 4

CONVENER

*Iain Gray (East Lothian) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

*George Adam (Paisley) (SNP)

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

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

Mark Griffin (Central Scotland) (Lab)

*Colin Keir (Edinburgh Western) (SNP)

*Tavish Scott (Shetland Islands) (LD)

*Humza Yousaf (Glasgow) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Neil Bibby (West Scotland) (Lab) (Committee Substitute)

Mr Robert Black (Auditor General for Scotland)

Dick Gill (Audit Scotland)

Barbara Hurst (Audit Scotland)

Andra Laird (Audit Scotland)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 1

Scottish Parliament

Public Audit Committee

Wednesday 20 June 2012

[The Convener *opened the meeting at 10:00*]

Decision on Taking Business in Private

The Convener (Iain Gray): Welcome, everyone, to this morning's meeting of the Public Audit Committee. I welcome the press and the public, as well as members. I ask everyone present to ensure that their phone is off. The only apologies that we have received are from Mark Griffin. Neil Bibby is substituting for him—welcome, Neil. As this is the first time that Neil has attended the committee, I invite him to declare any interests that he needs to declare.

Neil Bibby (West Scotland) (Lab): Thanks, convener. I declare that I am a member of the trade unions Unite and Community.

The Convener: Thank you, Neil.

The first item on our agenda is to decide whether to take item 6 in private. Does the committee agree to do that?

Members *indicated agreement.*

Section 23 Report

“Learning the lessons of public body mergers”

The Convener: The first substantive item on our agenda is consideration of the section 23 report, “Learning the lessons of public body mergers”, by Audit Scotland. I welcome to the committee Mr Black, for the final time as Auditor General for Scotland. I also welcome Barbara Hurst, Dick Gill and Andra Laird, who I think was the project manager for the report. I invite Mr Black to introduce the report.

Mr Robert Black (Auditor General for Scotland): Good morning, convener. The report was published on 14 June. As the committee will be aware, back in 2007 the Scottish Government set in place a programme to deliver a clearer, simpler and more effective landscape of public bodies. That programme has included 18 mergers over the past four years. As all of the mergers have taken place quite recently, the report does not provide a full, detailed audit of their performance. At this stage, it would be premature and quite impractical to do that. What we have done is look at about half the mergers to identify what lessons might be learned for planning and carrying out any future mergers.

We examined nine mergers in total. Of those, the four that we looked at in some detail were those involving Skills Development Scotland, Social Care and Social Work Improvement Scotland—the care inspectorate—Creative Scotland and Marine Scotland.

Audit Scotland has produced a separate good practice guide, which identifies issues that should be considered when mergers are undertaken. We see that as being a pretty important part of the project, which is not really a review of performance but is more about learning lessons. We believe that a good practice guide that draws on the evidence from the review should be useful to managers and practitioners in the future.

I will briefly highlight key findings in four areas: the importance of leadership in mergers; the planning process; the estimated and actual costs and savings; and the impact of the mergers, as far as it is known, on the organisations' performance.

One clear finding is that strong leadership is needed from the early stages of public sector mergers to ensure that important decisions are made about new organisations' vision, structure and plans. Exhibit 2 on page 8 of the report sets out the main challenges for those who lead mergers, which include setting the strategy for the new organisation, establishing effective governance, getting the organisation's structure

right, workforce planning, creating a sound organisational culture and, last but not least, ensuring that there is good communication with staff and good financial and performance management.

In the mergers that we examined, we found that permanent leaders were not always in place early enough to make progress with all those features. Because of the importance of putting clear and strong leadership in place early on, the report suggests that chairs and chief executives should ideally—and I suppose that that word is worth emphasising, because we recognise that such matters can be difficult—be appointed six months before the start date of new organisations.

We looked at the planning of mergers and found that, in all cases, the Scottish Government worked with merger teams and ensured that most mergers happened on the date that was originally set. We found that more attention should have been given to planning for how the organisations would develop after the merger. As a result, some organisations operated for too long without a clear vision and with interim staffing structures.

Turning to the financial consequences of merger, the four cases that we reviewed in detail have reported merger costs of £42 million so far, but reductions in staff numbers are expected to reduce costs by up to £20 million a year. Nevertheless, we found gaps in the analysis and reporting of the costs of and savings from mergers. Exhibit 7 on page 19 of the report shows the range of costs and savings that might typically arise from mergers. In the four mergers that we audited in detail, estimates of the expected costs and savings were made at the outset, based on the information that was available at the time, but the bodies did not record actual merger costs and savings fully or report those. In the main, the recording of merger costs was restricted to significant staff costs, such as for voluntary early release. The non-staff costs that were incurred, such as consultancy or information technology costs, were often not separately identified as being attributable to the merger, although they will have been incurred.

The report also suggests that the reporting of savings could have been better. Merging bodies have not distinguished between the savings that were made during the merger and other efficiency savings. Nor, from the reporting of the efficiency information, is it clear if savings had an impact on service quality. It is really important to state here that we do not expect a counsel of perfection. We recognise that such mergers often take place against tight timescales for sound business reasons. Nevertheless, the report encourages those who are planning for future mergers to pay more attention to such issues.

The Government's general expectation was that the mergers would help to improve service delivery to users and the efficiency and performance of public bodies. As I say, it is early days in being able to report on whether that has been achieved; it is really too early to see performance improvements. However, leaving that aside, performance measurement systems in merging bodies are poorly developed and, consequently, none of those that we examined was able to demonstrate that its performance has improved, although all have reported significant changes in how they deliver services.

In conclusion, convener, we suggest that more attention should be given early in the process to identifying the criteria that will be used to decide whether the merger has been a success—to put it at its simplest. We also recommend that merging bodies work hard to develop better performance reporting systems.

My colleagues and I will be happy to answer any questions.

The Convener: Thank you very much. Perhaps I could ask a little bit about the sample. You said that over the period that Audit Scotland looked at, there were 18 mergers. You looked at nine of them, which is half, and looked in detail at four of those. Therefore, you examined in some detail four mergers out of 18. Was the sample wide enough to give a general sense of what has been happening with mergers? Why did you choose those four in particular?

Mr Black: The judgment made was that it would be better to look at the larger organisations and a range of organisations that had different antecedents. The four mergers that we examined in depth accounted for 90 per cent of the estimated costs of the 18 planned mergers, so we expect them to make up the majority of the costs to date. The organisations that we looked at in detail have a different kind of feel to them, so we are trying to get a sample across all bodies. As I emphasised in my opening remarks, this is not a full performance audit. We have done sufficient work to draw out some of the high-level findings and lessons for the future.

The Convener: One aspect that is clear from the report—you mentioned it in your introductory remarks—is the consistent lack of information about the costs of each of the four mergers and the savings that could be attributed to it.

You said, I think, that two things could have been better and that you were not looking for a counsel of perfection. However, the report seems to indicate that, apart from staff cost savings, all four bodies could provide no information whatever about what other costs they had incurred or what savings they could attribute to the merger, as

opposed to more general efficiency savings. Far from being perfection, is not that the opposite of perfection—whatever the word is? Does it not reflect an unacceptable lack of attention to what is happening in the course of a merger?

Mr Black: A key recommendation in the report is that in future public bodies that are being merged and the teams that are planning mergers should give greater attention to their true overall cost. After all, public funds are being spent on mergers, so it is entirely reasonable that we should be able to identify how much the mergers cost in total. As you rightly say, we have not been able to do that.

Dick Gill might say a little more about the background, the non-staff costs and the difficulty that he had in trying to identify numbers.

Dick Gill (Audit Scotland): Unfortunately, the merged bodies were not required to report and have not reported the full costs of mergers. When we looked at the situation, that surprised us as auditors and it is a clear lesson for the future.

That said, the information in the report captures significant costs incurred by each of the bodies, for staff severance and so forth, and we do not know what other costs that the bodies incurred have been absorbed into their running costs. For example, a number of the bodies will have incurred costs for consultancy activity, or they might have needed to realign their organisation and there might have been property changes and so forth. Those costs have not been tracked and monitored as merger costs, although they will, of course, have been tracked and monitored as part of the governance of the individual organisations.

The Convener: Is it fair to say that, despite the mergers being the result of ministerial decisions that were justified and argued for on the basis of making savings and streamlining the public sector landscape, when the mergers took place ministers did not ask for any tracking or evidence that those savings were being made? The organisations involved did not track the costs because they were not asked to do so.

Dick Gill: I think that the view of the Scottish Government is that it is the responsibility of the new organisations to demonstrate value for money, cost effectiveness and so on. The Government sees that its role is not necessarily to get involved in bodies' operational management, which is a matter for the boards and senior management. There is no doubt that each of the bodies has made significant savings, but they have not clearly demonstrated the total costs and benefits in the way that we might have expected from the appraisals, options analyses and so on that were done before organisations were merged.

10:15

Mr Black: On what Dick Gill has said, particularly the point about savings not being delivered, it would be too pessimistic to think that there will be net costs from the merger process. For Skills Development Scotland, for example, the largest net saving was estimated at £57 million over five years. Its costs were higher than expected, at £35 million rather than £20 million as a one-off, but Skills Development Scotland estimates that the costs will come down by £16 million a year and that that will continue every year. There is no doubt that, on that analysis, there will be savings from the merger.

The Convener: The rationale behind all the mergers has been not just cost saving but more efficient and streamlined delivery of whatever service the bodies provide. However, in paragraph 32 of the report, you make it clear that, in the cases of the four bodies that you looked at in detail, there was an attempt to continue with business as usual while the mergers took place. Two or more organisations came together but there was no real change in the work that they did; they just did it under the umbrella of a single organisation. Paragraph 32 is not particularly positive about that benefit of the mergers—is that a fair reading of that paragraph?

Mr Black: Yes, convener, that is a reasonable conclusion. However, it is important to place that in context. We say later in the report that the evidence is that none of the mergers had an adverse effect on service delivery. The team and I got the impression that the mergers were, generally speaking, conducted to fairly tight timescales and that everyone—whether ministers, the management or the practitioners involved—was focused on maintaining service delivery and was able to do that. A lot of the mergers are recent, and it would be unreasonable to expect to have seen significant service redesign at this early stage. However, now that Skills Development Scotland has begun to settle down, it has introduced new programmes, which we attempt to summarise in paragraph 80 of the report. I am sure that that is well known to committee members.

Dick Gill: Convener, I would like to link what you have suggested about our findings in relation to measuring performance and delivering improvements in service to the real learning that we have identified about the importance of early leadership and clear strategic planning. From looking at the mergers, we learned that there was a focus on making the mergers happen on a given date. That is an important business efficiency consideration, but there was a lack of clarity about what was going to be secured two, three, four or five years down the line. An important lesson to

learn for future changes in the public sector is that we need to think not just about the implementation but about what improvements will be achieved after the event.

The Convener: Thank you. I think that Mr Scott wants to pursue lessons learned for future changes in the public sector.

Tavish Scott (Shetland Islands) (LD): Mr Gill, please correct me if I misheard your evidence, but I think that you said that the bodies have not reported the cost of the mergers and were not required to do so. Can you please clarify who did not require them to report the cost of the mergers?

Dick Gill: You heard me correctly—that is the situation. Andra Laird might want to comment on that in a moment. The Scottish Government gave clear guidance about the importance of measuring and recording merger costs and so forth, but I do not think that there was any specific requirement to report back to ministers. However, I hesitate slightly in saying that.

Tavish Scott: If I lodged a parliamentary question asking what the merger costs were for Skills Development Scotland, what answer would I receive—a complete guess?

Dick Gill: I dare say that SDS would research the matter and try to give you the best estimate. When we reviewed the mergers, we asked for that evidence but it was not available to us. We did not ask SDS to carry out a special exercise to establish that.

Tavish Scott: So the ministers of the day do not know the costs of merging these organisations.

Dick Gill: Well—

Tavish Scott: Let me broaden it to the Scottish Government, then.

Dick Gill: That is really for the Scottish Government to say. I am not aware of any basis on which that could be reported.

Tavish Scott: So we should ask the Government about that.

Dick Gill: Yes.

Mr Black: I think that you can found with reasonable confidence on the analysis in the Audit Scotland report.

Tavish Scott: But I suppose that the point that I am pursuing is that you had to dig to find that information. It was not readily available to you.

Mr Black: Yes. The Audit Scotland team has worked to put these figures together.

Tavish Scott: In that light, then, how can Parliament have confidence in the numbers being

presented to us on the merger of police forces, which is happening right now?

Mr Black: Clearly, we have not carried out an audit of the on-going processes in relation to the police. Unfortunately, therefore, I am not in a position to answer that question.

Tavish Scott: But, according to the report, you had to dig for and find these particular figures. It has not been possible for the Government to give you the figures because it did not request the bodies to report them. Would it not be fair to assume, therefore, that the same would apply to the police?

Mr Black: That would be your judgment. I am sorry, but I really have no knowledge about the planning that the Scottish Government and the police service are undertaking for that merger and the extent to which they have been able to develop a robust analysis. It would be best to address those questions to Scottish ministers.

Tavish Scott: We will do our best.

Finally, I want to try to establish the same principle with regard to leadership. As I understand it, a minister of the day decides to merge certain bodies; he or she introduces legislation and takes it through Parliament; and after that he or she is deemed to have divested himself or herself of the political responsibility to get the job done. Who does responsibility then rest with? From your work on the report, is it clear that a senior civil servant has had sole responsibility for taking each merger through?

Dick Gill: I am sorry—sole responsibility for what?

Tavish Scott: I presume from the report that, in the absence of an appointed chief executive or an appointed board, the civil service has been responsible for the task of taking the merger forward.

Dick Gill: Yes. Each of the mergers that we examined would have had a programme board, which would have been a kind of high-level strategic management committee in the Scottish Government with responsibility for ensuring that the merger happened and for facilitating the process. What tends to happen is that the programme board ceases to operate shortly before or around the time that the new body comes into operation, and responsibility and accountability for the body's activities then pass to its chairman, its board and its senior management.

Tavish Scott: Did Audit Scotland find the programme board to be different for each merger? Were different people on the board? Was there any continuity of expertise?

Dick Gill: Andra Laird might want to comment on that, but I believe that each programme board was bespoke and comprised different people. I am not sure whether there was necessarily any common membership between the boards.

Andra Laird (Audit Scotland): That is quite right—different people were on different programme boards. Each board developed its own approach. I believe that the first programme board was established for SDS, and it stopped at a fairly early stage. Lessons were learned from that merger and, afterwards, programme boards stayed in touch with their mergers for a little bit longer. However, that approach did not come about as a result of having continuity of membership.

The Convener: Should those boards have played a role in addressing the gap that your report has identified and which we are exploring, which is that no one required the merged bodies to properly plan for, track and provide information about costs of and savings from mergers? Should the programme board have had that responsibility?

Dick Gill: One of the gaps that we have identified relates to success measures for new organisations, and we think that the Scottish Government's programme board needs to be clearer about what success should look like. That is not to say that the programme board that is created to help establish the new body need go beyond the new organisation's inception date, but what one might call the delivery promise should be clear and form the basis of subsequent reporting and accountability by the individual merged body.

Colin Beattie (Midlothian North and Musselburgh) (SNP): As is sometimes the case, there is a good story behind this but in audit, of course, we tend to focus on the negatives, because they are perhaps more interesting.

I am looking at the comments in the report on the

"weaknesses in performance measures and baseline information".

It seems to me that a recurring situation in public bodies is one of a lack of information, of gathering information and of performance measurement. Is that a correct interpretation? That seems to be a legacy issue rather than an issue that has come up recently. We have seen that in other audit reports. [*Interruption.*]

The Convener: Mr Beattie's microphone is not working. Perhaps he can move to a different seat.

Colin Beattie: Do you want me to say again what I said, convener?

The Convener: Yes.

Colin Beattie: There is a lot of good news in the report but, as this is an audit committee, I suppose that, of necessity, we tend to look at the negative side, which is perhaps a wee bit more interesting. The report comments on

"the weaknesses in performance measures and baseline information"

and a lack of those things. That seems to have been a recurring theme in audit reports over the months. There seems to be an endemic lack of performance information gathering, and that seems to be a legacy issue. Often, systems do not seem to be in place. Is that fair comment?

Mr Black: Yes, it is fair comment. We have had to say in many of our reports that the quality of the information that we have had to make them on is less than satisfactory. To different degrees, we have had to use audit resources to devil and get together data sets that can help us in putting reports together.

That said, the direction of travel is one of improvement. The performance targets for the whole of Government and individual parts of it, such as the health service, are clearer and more fit for purpose than they used to be, and financial information is improving, but there is still a way to go. It is fair to say that getting the data together is quite often very challenging, particularly in relation to things such as partnership working, when we are looking at whole systems. Perhaps Barbara Hurst can comment on that.

Barbara Hurst (Audit Scotland): That is absolutely true. We ask for information not for the sake of it, but because we think that it is good management information that will be needed to manage properly.

On the point about the negativity of audit, we try to be positive when we can.

Colin Beattie: I realise that, but I was quoting from the report.

The cost overrun has been discussed. The £30 million cost that was forecast became £42 million, which is quite a substantial overrun. Is there a primary reason for that? Can you put your finger on an area and say that it was the main driver for the overrun?

Dick Gill: The largest share of the cost of the four mergers that we examined was attributable to Skills Development Scotland, which is a very large and significant public body that currently has around 1,100 staff. Its costs account for a great deal of the reported overrun. We say in the report—Andra Laird may be able to help me with the reference for this—that at the outset, when it was created, Skills Development Scotland ran into unforeseen equal pay costs. I think that it incurred an extra £5 million or £6 million—I cannot

remember the exact figure in the report—of completely unanticipated costs.

In addition, the level of severance under SDS's voluntary severance scheme was higher than expected—Andra Laird might be able to help me with that, too—and therefore the costs associated with severance were higher than expected. Of course, the savings might be higher, too. Most of the increased costs are the result of the large scale of SDS's activities.

10:30

Colin Beattie: Were staff reductions a driving factor in the overrun? Was the staff reduction side of things more expensive than anticipated in all the organisations in the initial stages, or was that issue unique to SDS?

Dick Gill: SDS is probably in a unique situation because it is such a large organisation. The figures for Creative Scotland suggest an underrun, if anything, in relation to what it expected to spend on severance and what it spent. Creative Scotland's costs are much lower—the information is in paragraph 72. Creative Scotland's costs over five years were estimated to be £3.3 million. Our understanding is that so far—over three years, not five—the merger has cost £2.7 million. However, I would be wary about generalising, because each merger was specific to its own circumstances.

Mary Scanlon (Highlands and Islands) (Con): I was optimistic and looked for good news in the report, but I did not always find it. I was shocked to read that Skills Development Scotland lost 395 staff. Despite that, it says in paragraph 80 that SDS has

“maintained or expanded the number of training places”.

Was the organisation grossly overstaffed? Given the financial constraints on our economy, many people might ask how an organisation could lose 400 members of staff and then be more efficient and provide a better service. That is probably the issue that shocked me most. How could SDS do a better job with 400 fewer staff?

Dick Gill: The relationship between the number of staff and activity on the provision of training places and so on is important. Skills Development Scotland certainly told us that its ability to deliver more training places and so forth when its staff complement was reducing was a measure of its improved productivity. We were cautious about that, because we did not see that SDS had developed robust systems to demonstrate the relationship between staffing and training places and so on.

Whether the organisation was grossly overstaffed is a question for SDS. In exhibit 10 on page 25, we refer to some of the changes that

SDS is making as a result of the merger, such as the launch of the my world of work website, which features prominently as a big part of the service. You would need to ask SDS about this, but my understanding is that it is moving engagement and interaction on to the web and stepping back from universal provision of careers advisers in schools and locations across the country. I think that SDS thinks that that is a more efficient and effective approach; I am not in a position to make a judgment on that.

Mary Scanlon: It is a hugely controversial area given that there are 104,000 unemployed young people between the ages of 16 and 24.

Dick Gill: Indeed.

Mary Scanlon: However, if Skills Development Scotland can lose 400 staff and do a better job, I suppose that we should welcome that.

While you were responding to Colin Beattie's questions I noticed that note 3 to exhibit 9 states:

“No merged body has assessed net savings.”

That is a sad indictment on this organisation. Quite a few of the committee members were MSPs during the previous parliamentary session. The reform of public bodies was a flagship policy that was supported by all parties. I was on the Health and Sport Committee at the time and we went through all the savings that were to be made—we were provided with financial memorandums to show that savings would be made to the public purse. I think that every single MSP supported the policy.

In doing the audit, did you go back to the claims that were made—I am looking at a supplementary financial memorandum, but the claims are quite difficult to pinpoint—and that we all supported, and compare them with what Colin Beattie referred to—the £42 million merger costs, which is higher than the £30 million forecast? It seems to me that pretty well every cost was higher than forecast. You are unable to say how much the mergers that you examined cost, and in paragraph 66, the report says that you

“do not know which efficiency savings were made because of the merger or whether they could have been achieved without merging”.

I almost feel that I have been conned. Every MSP signed up to the policy—it was known as the bonfire of the quangos and was led by an able minister, Alex Neil. We were all told that we were going to save huge amounts of money and that duplication would be reduced and so on. I have come along today and I am struggling to find that news. Can you give me a bit of good news that would show that voting for the policy was a good idea?

Mr Black: I draw your attention to the section that starts in paragraph 67 on page 21 of the report. The strapline is that in the four mergers, 90 per cent of the costs are accounted for by the changes, which cost £39 million, but the reductions in staff numbers are projected to save £20 million each year. As I may have said, you can be reasonably confident that there will be significant net savings over a number of years. What has happened is that the time when the net savings start kicking in has moved to the right somewhat because the costs are a little bit higher. Nevertheless, there will almost certainly be significant future net savings annually.

The other positive message is that all the evidence that we had was that each of the bodies affected by the merger did keep services on the road, so to speak. Some evidence is now coming through from, for example, Skills Development Scotland and the care inspectorate, that they are seriously thinking about elements of service redesign, and we see some of that coming in already in Skills Development Scotland.

Mary Scanlon: I think that I am right in saying that note 3 to exhibit 9 states:

“No merged body has assessed net savings.”

Mr Black: That is correct.

Mary Scanlon: Paragraph 59 states:

“The assessment of costs is also incomplete because recently merged bodies are still incurring costs as changes are introduced”.

Furthermore, under the key messages section on page 18, the last line—which is highlighted in blue—states that

“there was inadequate analysis of saving and efficiencies.”

The truth is that, as we sit here today, despite all the promises that were made to us about a bonfire of the quangos, we cannot put hand on heart and say that that policy is saving taxpayers millions and millions of pounds or that it has fulfilled the promises that were made in the legislation and the financial memorandum. Would you agree?

Dick Gill: As a supplement to what the Auditor General said, we drew on the financial memorandum for the £30 million estimate, against which we reported an outturn of £42 million. There is no doubt that good and proper estimates of the costs were made, so we do not have a concern about a gap in that regard. Our concern is about a lack of precision in measuring the outturn against the estimates. What we have revealed is that, inevitably, some of the estimates were wrong and that some were underestimates.

Mary Scanlon: The costs are still going up, and you confirm that, in hindsight, the estimates are likely to be wrong.

Dick Gill: We know that they are wrong but, as the Auditor General indicated, it would be very pessimistic and probably wrong to say that costs outweigh savings. We are very clear about that in the report.

You referred to the policy background to the mergers. Exhibit 5 on page 14 of the report summarises the high-level aims for each of the mergers that we examined in detail. It is important to remember that there was a sensible case for making the mergers. It seemed to be a good thing to do in policy terms.

Mary Scanlon: Yes; that is why we supported it.

Dick Gill: Control of costs was needed. There was some control of costs, but some of the precision in measuring outturn against estimates was not as good as we would expect.

Mary Scanlon: Thank you.

Humza Yousaf (Glasgow) (SNP): Part 1 of the report is on leadership and governance and makes the good recommendation that the

“permanent chair and chief executive”

of a merged body should be appointed as soon as possible and

“at least six months before”.

We see some of that happening in future mergers, perhaps with lessons having been learned.

In part 1, are you angling towards suggesting that there should be more than just Scottish Government guidelines? That question could apply to the whole report. Should there be something more robust? Should your recommendations become statutory requirements, particularly those on leadership and governance?

Mr Black: The short answer to that is no. First, I do not think that one would expect there to be a statutory framework to govern the area. It is important that we legislate only when we have to. Secondly, there will be different contexts for each event and project, so a response must be designed to fit the circumstances. What is important is that some basic principles are applied and we have tried to capture those in the report. Not the least of them is the importance of ensuring that the leadership team is in place as early as possible to deliver all the requirements that we itemise in the report.

Humza Yousaf: Thank you. You have referred to paragraph 80 of the report a couple of times with regard to “significant pressures” that faced the mergers. Such pressures, given the current climate, will only become more significant. However, despite the significant pressures on the mergers, service delivery does not seem to have been adversely affected. As others have said,

significant mergers are coming up in the future. What were the factors that meant that the pressures around the mergers did not adversely affect service delivery? Do you see those factors being adversely affected by the current climate and in future? Do you have any cause for concern on the service delivery front?

Mr Black: As you might imagine, my colleagues and I hesitate to attempt to predict or forecast what the future might hold. That is not our role. Also, given the high level at which this particular project was undertaken, we do not have information that can help populate a full answer to your question, so what I say is slightly speculative. However, it is clear that in major mergers, such as in the creation of the care inspectorate, there will be groups of professional staff out there continuing to deliver the service on a day-to-day basis. What seems to have happened pretty successfully is that the service continued to be delivered while the merger process was being enacted at a more strategic level. That is something from which one can take some encouragement in relation to whatever mergers might be ahead. The professional staff will continue to deliver the service that is expected of them. Clearly, they are entitled to good leadership through that process, hence the recommendation about addressing that issue sufficiently early.

10:45

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): I used to work for Learning and Teaching Scotland, which was subject to this review process. It became Education Scotland recently, although that is not covered in detail in the report.

Colin Beattie talked about aspects of negativity. I do not think that those comments were aimed at Audit Scotland. They were aimed more at some of our colleagues' interpretation of the issues. The report contains quite a number of positive messages.

The Scottish Government's intention was to simplify and clear the public sector landscape. The fact that 28 bodies are going and 18 mergers are taking place—which, as Mr Black pointed out, will result in recurring savings of £20 million a year—is a positive message for this process at this stage in the game. I suggest that any members of the committee who feel conned or shocked are a wee bit off the mark.

In my experience, one of the difficulties in a merger process is harmonising staff terms and conditions. My experience is that that can take years to achieve. Clearly, that will be a recurring cost in the merger process. One of the other elements that Mr Black mentioned was the IT cost

provision, which somehow—strangely—never gets included in the merger cost estimates and so on.

Has the harmonisation of terms and conditions been completed for the organisations that you have looked at? Also, could you talk about the particular problems with the estimation of IT costs in the merger process?

Dick Gill: I will attempt to answer—Andra might back me up in a moment.

Exhibit 8 on page 20 summarises the costs of harmonisation that are known so far. Most of those costs relate to the situation in Skills Development Scotland. I think that it is operating in a harmonised environment now, and I think that the same is true of Creative Scotland. I am unsure about the care inspectorate—I think that there is still work to be done in that regard in that organisation.

Andra Laird: There are probably still a few things to tease out on that.

Dick Gill: I do not think that there are any issues with Marine Scotland, because many of the staff were civil servants.

The IT issue is a good illustration of the sort of area where we think that there will inevitably have been costs, but they have not been reported as costs associated with the merger. Certainly, SDS has done some important work on procuring a completely new set of IT support services in partnership with Scottish Enterprise. It is transforming its IT, but that has not been attributed as a cost of the merger, and we have no way of estimating what that cost might be.

Willie Coffey: It is a difficult area. When a new, merged body invests in IT infrastructure year on year, at what point does that become not a merger cost? That is one of the difficulties with a process such as this.

Similarly, on the harmonisation of staff, I would not expect the Scottish Government or the previous Executive to be involved at that level of detail in defining what the operational structure will be. There are bound to be variations in the planning for the organisational structure of the new body in relation to the tasks that it is being asked to carry out. I would expect there to be differences in that.

The encouraging message from the exhibit on page 21 is that there are expected savings of £20 million a year, which could add up to a saving of between £80 million and £100 million over the course of four or five years. That is much higher than was originally suggested.

Mr Black: I absolutely recognise the points that Mr Coffey makes but, nevertheless, I hope that the committee agrees that it should be helpful to

management at all levels to have something like exhibit 7, in which we try to capture the range of headings under which costs and savings should be described. As you will imagine, I have looked at the issue in detail. There is nothing in the exhibit that it is unreasonable to expect a programme board to at least think about, address and put some numbers against. That comes back to the original point that the report is about learning lessons and trying to help people to do things better in future.

Willie Coffey: Audit Scotland's wise words should be heeded by many. The good practice guide that you have produced is excellent.

Have the new bodies embraced any formal performance management standards, or do you stop at simply suggesting that they introduce performance improvement measures? As I have said several times, a number of management systems are available to the private and public sectors. Have any of the new organisations embraced the standards to meet your recommendations?

Dick Gill: That is a difficult question to answer. In our guide, we have included important suggestions. They are what we call the audit questions that are important to ask when measuring performance. A lot of the value added is about identifying the right questions to answer at the planning stage. Our questions about measuring performance are associated with the benefits that are expected to arise from a merger, rather than the broader performance measurement and management agenda. Therefore, we cannot give a clear answer to that question at this stage.

The Convener: Mr Coffey made an interesting point that I would like to follow up. At what point do IT costs stop being the costs of merger and become simply the on-going IT costs that any organisation would have? At what point do staff savings stop being merger savings and become the costs of the staff that the body has? I suppose that the question is that, in planning better for costs and savings from mergers, what is a reasonable time horizon? Is it three years or five years? What is a reasonable timeframe for estimating and tracking the costs?

Mr Black: I ask Dick Gill if he would like to speculate on that—it would be pulling a number out of the air, really.

The Convener: It is speculation.

Dick Gill: As one of the committee members has observed, that becomes difficult as time goes by and as the new organisation finds its feet. It is no longer a merged organisation; it is a new organisation providing important public services.

The Convener: You are in the business of giving guidance for future mergers.

Dick Gill: As I said, one body has made significant investment in new IT provision. I think that it was approximately 18 months before it could make that new contractual commitment. It is reasonable to think about costs over two to three years after the merger period, simply for completeness. Beyond that, diminishing returns would undoubtedly set in.

As the Auditor General said, the important issues are in exhibit 7 in the report. Bodies need to think through the consequences of the decision, how those will be managed and what the cost implications are. Clarity and precision in those areas is for the bodies concerned.

The Convener: As members have no further comments, I thank the panel.

Annual Report (Audit Scotland)

10:55

The Convener: We move to item 3. The Auditor General is still with us, as is Ms Hurst, the director of performance for Audit Scotland. Mr Black, do you want to introduce the annual report?

Mr Black: Convener, as you remarked at the beginning of the meeting, this will be my final appearance at the committee as the Auditor General for Scotland, so I take particular pleasure in having the opportunity to present the Audit Scotland annual report for the past financial year. I hope that you will agree with me that the picture of Audit Scotland's performance as presented in the report is reasonably positive, and that we have managed our financial performance as effectively as we can. We also have to recognise that Audit Scotland is operating in the same financially challenging environment as everyone else and that the need for robust public audit has never been stronger than it is at the moment, and that will be the case in the future.

If I may, I will briefly highlight some of the key points in the report. I sometimes talk about the Audit Scotland iceberg. By that I mean that the Public Audit Committee tends to see the tip of the iceberg, namely the performance audit reports and the overviews, and so on, which are formally laid before the Parliament. Beneath the surface there is a large volume of activity that is undertaken by the Audit Scotland team and the firms who partner us in our audit work. As we itemise in the annual report, we have produced more than 200 final audit reports in the past year, all of which were completed in time. We have also produced several hundred other reports for the 200 or so public bodies that we audit.

Coming back above the surface to the visible part of the iceberg, we published 27 reports on performance and best value audits, many of which have been presented to the committee. We like to think that much of our work is about not just holding public bodies to account, but helping them to identify areas for improvement. The report on mergers that I have just presented to the committee is perhaps a typical example of that.

A couple of years ago, Audit Scotland started exposing itself to the best companies review, which is a rigorous independent review of an organisation. Audit Scotland has achieved and retained one to watch status, which is quite a significant achievement. We also value the fact that we have the two ticks accreditation from Jobcentre Plus for our work.

We are committed to consulting widely with our principal stakeholders and I put at the top of that

list the Public Audit Committee and the Parliament. We now have a rolling work programme to which, from time to time, new pieces of work are introduced. We think that that has gone pretty well this year.

A few months ago, we published our corporate plan, which covers the period 2012 to 2015. It is available on our website. It is an attempt to resonate with the risks, challenges and opportunities that we see are out there in the public sector.

As recently as yesterday, we discussed with the Scottish Commission for Public Audit our financial performance, but I should mention that we continue to deliver efficiency savings amounting to more than £3 million. For a relatively small professional organisation, that is a tribute to the commitment of my staff in playing their part in getting costs down and maintaining quality in the public sector.

As ever, I will be very happy to answer questions, and Barbara Hurst is here because her special area is the performance audit work that we do for you.

The Convener: I open up the item to colleagues who want to comment or ask questions.

11:00

Mary Scanlon: It is commendable that you take part in the best companies review. Are Government departments and local authorities involved in that? Is that common in the public sector? If it is not, should it be?

Mr Black: Participation is not very common; organisations must elect to take part in the review. The initiative applies across the whole United Kingdom. If you are interested in knowing more, I can arrange for a note to be passed to you.

Mary Scanlon: Given what we have heard in the past few months, if Audit Scotland has found that review to be of enormous benefit, I thought that it could benefit others. However, if they have to decide on the matter themselves, it is up to them.

Mr Black: We have found the review to be of huge benefit, because it involves a fine-grained and detailed analysis of the organisation's strengths and areas for development.

Mary Scanlon: I will put my question in another way. Would many public sector organisations benefit from participating in the best companies review?

Mr Black: I would certainly commend the model to other public sector organisations. It provides a good way to find out the true strengths and areas for development in an organisation.

The Convener: I have a question about Audit Scotland's trainee programme. Audit Scotland is and should be the gold standard of audit, so it has an important role in training future generations of auditors. I note that you had 10 trainees who

"completed their qualifications during the year, and three won prizes".

Given that you—like every other public body—are reducing staff numbers, how are you managing to sustain the trainee programme?

Mr Black: Thank you for that question, which raises a really important issue for not just Audit Scotland, but all public bodies. When any organisation looks for quick efficiency savings, it looks to payroll costs and reducing staff numbers—we can see that across the public sector. One risk of that is that professional capacity and knowledge will be lost in that process.

We took a strategic decision that we had to sustain the graduate intake, to develop the resource for the future. Our graduate trainee programme has therefore been pretty well safeguarded through that process. Because our voluntary early release scheme has worked quite well, it has provided an opportunity for internal promotions of people at lower grades, which frees up space for bringing in trainees.

A hugely important issue is having financial skills in the public sector. I have spoken occasionally at conferences in Europe. As you know, convener, quite a number of people and delegations come from elsewhere in the world to see what we do in Audit Scotland. We need to recognise that a great strength of the public sector in the United Kingdom is that every public body has financial professionals in it, which is not necessarily the case in other public systems. For the future, it is vital to find ways of developing good-quality financial expertise in the whole public sector and not only in Audit Scotland. We are committed to maintaining that.

We are now the single largest trainer of public sector finance people in Scotland. Quite a number of our people go elsewhere in the public sector, so they get a good training with us and sometimes move on elsewhere.

Willie Coffey: I thank Mr Black for his report, which, as he said, is his final report to the Parliament. It has been shown over a number of years that not only the Parliament but the public sector rely on Audit Scotland, given the sharp focus of its reports and the positive improvement agendas that they always contain. That is a credit to Mr Black as the leader of the organisation. We should put that on the record.

On the international dimension of Audit Scotland's work, the report states:

"In 2011/12, we worked with 15 organisations but turned down 12 other requests."

Audit Scotland's reputation is growing far and wide and the interest in your activities and work is extending to other countries. Is there a constraint on your international work, given the budgetary situation? Should we be considering how that aspect of Audit Scotland's work can be extended and developed in future?

Mr Black: There is a constraint. When we started the venture of doing some work with other countries, we put a tight limit on it. I cannot recall the numbers off the top of my head, but it was the equivalent of a couple of hundred thousand pounds of staff time for everything that we do in the area. We thought that that was reasonable. We must not lose our focus on our main day job, which is holding to account, helping to improve and reporting to the Scottish Parliament, but for the reasons that we have itemised in the report and elsewhere, we thought that it was a good thing to share our knowledge and skills with other countries where that is appropriate, and also to learn from them, which we do. To be frank, I think that we contribute more than we get, because our model is a strong one.

Because we limit the resources, we will receive only a certain number of delegations each year. Everyone who is involved has a day job and it is important that we ensure that their work is not adversely affected.

There is a report on our international work on our website, but I am happy to circulate copies to committee members. I think that it is an interesting read.

Willie Coffey: Thank you.

Humza Yousaf: There is much to be welcomed in the report. I have looked in particular at the information about those who are involved in your organisation. It is commendable that you have the two ticks disability symbol accreditation, which you mention in the information on diversity and equality, and that 50 per cent of your staff are female. However, are you concerned about the senior level of your organisation? With the exception of one, the board comprises only middle-aged, white, male representation, and when we look at the board plus the senior management, not one of the 11 senior individuals is from a black or visible minority background. Does that give you cause for concern?

Mr Black: It is something that the Audit Scotland board, I and the management team are very concerned about. Again, if you look on our website, you will see a full report on our policy in

relation to ethnic minorities and disability. We have a robust policy in that area. Clearly, we operate within the limit of the people who express an interest in and are suitably qualified for our work, but we work hard at that. You might want to have a look at the report on our website. If you have some difficulty in finding it, please do not hesitate to get in touch with me.

Humza Yousaf: I appreciate that, and I will take up your recommendation to look at the website. Do you have a breakdown of the staff who work in the organisation? Do you keep a record of them by diverse background?

Mr Black: Yes. That is all available on our website.

Humza Yousaf: Thank you. I will certainly have a look at that.

The Convener: Is there any capacity within the graduate recruitment programme that you mentioned to try to change the lack of diversity from the grassroots of the organisation upwards?

Mr Black: Yes—that is a fair point, and I am sure that it is something that we can take on board for the future. The graduate recruitment programme is an open one and it is widely advertised across the further and higher education sectors, but the point is certainly worth thinking about.

The Convener: As we have no further questions, I suggest that the committee notes the report. We thank the Auditor General for providing it.

11:10

Meeting suspended.

11:20

On resuming—

“National performance audit reports—themes and programme”

The Convener: Item 4 is consideration of the paper “National performance audit reports—themes and programme”. I welcome to the panel Angela Canning, along with the Auditor General and Barbara Hurst. I invite Mr Black to introduce the paper.

Mr Black: Thank you, convener. As we are coming to the end of the parliamentary year, I thought that it might be useful to present a report that would help the committee to think about its areas of interest in relation to the forward programme of Audit Scotland and to pull out some of the themes of our reports over the past few years. We take a great deal of care to put the programme together within a strategic framework. The paper tries to summarise the audits that we have done and to highlight some of the risk areas that we have identified through our work that might help to shape thinking about the way forward.

Our published reports and our work in progress can be grouped under five key themes, which we have captured in the paper: managing reductions in public sector budgets; investment, including both capital investment and the important area of spend-to-save investment or investment in preventative services; partnership working; user focus and personalisation; and environmental auditing, which we touched on earlier. Under each theme, the paper highlights the risks that we have identified through our work. Where relevant, we have also indicated areas in which we are keeping a watching brief with a view to carrying out performance audit work in the future.

The first major theme, managing reductions in public sector budgets, might also be described as maintaining financial sustainability. As we all know, finances will continue to reduce for some years yet and new ways of working will be needed. There are some key risks associated with, for example, reactive and short-term financial planning to meet budget targets, an inability to develop people in line with their new roles—we touched on that briefly when we discussed our annual report—and not paying attention to the key leadership and management skills that are needed for managing in a time of austerity.

It is difficult to see how managing budget reductions cannot remain an important theme for audit work in the future. The reports in the pipeline in this area include a report on prescribing in

general practice, which will highlight the scope that there is for further efficiency savings, and a review of workforce planning, which will consider how reductions in staffing have been managed.

Under the second theme, investment, committee members will recognise the risks that are associated with not managing major capital projects to time and cost, and with giving insufficient attention to realising the benefits of major projects. There is an equally important risk associated with failing to maintain assets such as roads, schools and hospitals. I have sometimes used commonplace language about passing on our problems to our children and our grandchildren in the form of potholes, poorly maintained buildings and so on.

On preventative services, it occurs to me that there is a major risk that investment will fail to act as a genuine lever for change. I am not saying that this will happen, but there is a risk that preventative spend money will end up being used to put a sticking plaster on existing services, because of the difficulty of getting serious service redesign in place sufficiently quickly. We have projects under way in the area that might fit into the theme. Our forthcoming report on reducing reoffending will look at the extent to which funding is focused on achieving the best outcomes—we have looked at the policy area in the past. Also, for the first time, there will be a major project to provide an overview of social and public sector housing.

The third and fourth themes—partnerships and user focus—are linked. As I am sure the committee recalls, we have done a considerable body of work on partnerships, perhaps the most significant of which was the report that we published a year ago on community health partnerships. The report contained challenging messages and the committee took a great deal of interest in the issue. The most significant issue is that partnerships really must be able to demonstrate that they are genuinely adding value through better outcomes, better services and improved efficiency. It is important that partnerships do not lose sight of the efficiency drive, given the financial challenges that lie ahead. If partnerships do not deliver added value in the way that I described, they are at risk of being regarded as an unnecessary level of bureaucracy. There is no doubt that much senior time at management and practitioner level is taken up in participating in partnerships of one kind or another.

Audit Scotland will keep a close eye on progress on the integration of health and social care, which is a major initiative. As I noted in the paper, the Cabinet Secretary for Finance, Employment and Sustainable Growth has asked the Accounts

Commission to lead work on developing an audit approach that contributes to improvement in the performance of community planning partnerships. The work is being undertaken by Audit Scotland on the commission's behalf. I have emphasised the need for the work to be done in close collaboration with the Auditor General, so that progress and performance can be reported at a high level to the Parliament. Therefore, I sit on the internal steering group that is developing the work in Audit Scotland.

An important element in many of our performance audits has been the interests and perspective of service users. That is something that I feel very strongly about. There is nothing like hearing how service users themselves rate the services that they receive, and that must be one of the most important improvement tools of all. A number of our reports have service users at their core, in particular the report on children in residential care that we produced several months ago. Many of our health reports have the same emphasis.

Finally, we have the theme of environmental auditing. Conceptually, that is a bit different from the other themes in our work programme, but it is an important area for audit, particularly given Scotland's aspiration for a transition to a low-carbon economy and the financial implications for public bodies of their climate change duties. We have planned a couple of important audits in the area: one on renewable energy and one on local bodies' response to climate change.

I hope that that overview was useful in refreshing members' understanding and thinking about the overall shape of the programme under the five themes. I encourage members to reflect on the programme and perhaps have a conversation with my successor after the summer recess on your perception of how we might flex and improve the programme of work. Barbara Hurst and Angela Canning, who take the lead with me in shaping the strategic approach, are here to listen to what you say and answer your questions.

The Convener: Thank you. You said "flex". The paper is clear on the strategic framework in which you develop the work programme and how your reports relate to it, but there are occasions on which the Auditor General and Audit Scotland undertake unexpected pieces of work, for reasons of urgency or topicality. In 2010, for example, you produced a report on the gathering. I see that an interim report on the Edinburgh trams project was planned, but the Scottish Government asked you to undertake your initial report on the trams project back in 2007. In this year's programme, there is also to be a report on national health service waiting times, which has arisen out of what happened in NHS Lothian in particular.

Are you satisfied that there is enough flexibility in the programme to allow you to respond to the more urgent, unexpected or unplanned demands on your time? Does the fact that you have a strategically developed programme make it difficult for you to make space for that kind of work?

11:30

Mr Black: I will give you a high-level response and then ask Barbara Hurst to give you a fuller answer to that.

I offer the committee the assurance that, over the years, whenever issues have arisen that have required Audit Scotland to engage, we have managed to fit them into the programme. Generally, we have simply adjusted the timing of pieces of work and have not lost significant pieces of work from the programme to accommodate others—we tend to slide things to the right. For example, as the schedule on page 13 states, we have brought the piece of work on waiting times in and we are pushing back for a little while the modern apprenticeships work. That is mainly because we require an expert team of people who really understand health systems to do the NHS waiting times work and that team was set to go. For that reason, we have had to push back the modern apprenticeships work. That is typical of what we do.

However, a caveat for the future is that we are taking 20 per cent, in real terms, out of the resources of Audit Scotland over the spending review period, which means that things will become tighter and it will be more difficult for us to respond on an ad hoc basis.

Barbara Hurst: We are keen to have the capacity to respond to issues of public interest that might not have been on our radar as we were developing the programme. As the Auditor General says, the most common approach is for us to move one of our existing projects for later reporting. We have scoped our report on modern apprenticeships and have given the bodies that we will be auditing time to ensure that they have the data that we need. We will go back to the report in the autumn.

Over the past couple of years, we have worked hard to get a genuinely rolling programme partly to ensure that we are able to respond when we need to. There would be no point in looking at waiting times in a year's time when people want answers now. We are keen to retain that approach.

The Convener: In the short time that I have spent on the committee, it has become clear to me that the committee is concerned about what the process is for returning to an issue to see whether progress has been made after Audit Scotland has produced a performance audit report and made

recommendations, which the committee often agrees with. A counter-example is that, in addressing the recent report on commissioning social care, the Auditor General pointed out that it was the sixth time that many of the recommendations had been made and that, every time the integration of health and social care was examined, very little progress seemed to have been made. Are there going to be changes in the way in which you work, or are there things that you think should happen, to ensure that the work that you carry out is efficient, effective and not in vain?

Mr Black: I can answer that on a number of levels.

As this will be my last meeting, I want to begin by highlighting something that I really believe in: the importance of the Parliament's Public Audit Committee and its role in holding others to account. We must never forget and must fully appreciate its importance. After leaving Tayside Regional Council and coming into this line of work, I was briefly controller of audit at the Accounts Commission and, speaking quite frankly and plainly, I felt a sense of frustration at the fact that we—Barbara Hurst was with me in those days—kept producing early-doors performance audit reports that had pretty small impact. It was very easy for busy people who were running major services to read them, say, "That's a really interesting and useful report," and then put them on the shelf.

I think, therefore, that the Public Audit Committee plays a vital role in what I would call closing the accountability loop. You receive a report from the Auditor General, consider the evidence, ask questions of me and my colleagues and, where appropriate, the accountable officers and mandate those officers to take action and get back to you. As the committee is well aware, the permanent secretary is required to report to the committee regularly on capital programmes. The Public Audit Committee's role in closing the accountability loop and its added value in creating a climate in which people to respond to our work are enormously helpful and, indeed, vital.

Secondly, I point out that we have revisited certain public policy issues two or three times; prescribing is a good example, and I could name others. Such an approach certainly helps. Indeed, I am confident that, the next time that general practitioner prescribing is examined, we will find that further progress has been made.

Thirdly, I believe that, as the years have gone by, we have become better at doing our job. For a start, we now try to ensure that our reports contain practical recommendations for consideration and action by accountable bodies and, in what I believe is a good move, we have also developed a system of impact reports to find out whether our

work is actually having an effect. That said, there is still some way to go to ensure that our reports are always followed up as fully as they might be and the recommendations acted on. The long saga of commissioning social care is probably as good an example as any of that but, as we point out in our paper, there has been significant movement in that respect with the proposed new health and social care initiative.

I apologise for my rather long answer, but the question is an important one.

Barbara Hurst: As well as that, we are also ensuring that every time we publish a report we provide the local auditor with information packs. We provide information to non-executives containing questions for local bodies and have got into the way of producing checklists for bodies to assess their own performance. We are trying to build all that into the routine everyday audit process.

Willie Coffey: All of that is welcome and, in recent years, I have certainly seen positive changes in that direction.

We have discussed at length whether, in fact, Audit Scotland is even able to carry out follow-up verification audit work with some of the bodies that it works with. Truth be told, it probably cannot, but something that we might have missed is the suggestion that someone, perhaps the Scottish Government, should require public bodies to report back, after a reasonable period of, say, a year, about how they have taken up Audit Scotland's templates, recommendations, checklists and so on. Sometimes—perhaps all the time—we do not get that kind of feedback from the public bodies that Mr Black's team spend a considerable time examining, and we rarely see a report about how, a year on, they have implemented some of Audit Scotland's recommendations. Perhaps that area should be strengthened, because it would take that burden away from Audit Scotland and put it more where it belongs, with the public body itself.

Barbara Hurst: We are certainly aware that, in the health service, there is a strong push from the centre to health boards to demonstrate what they are doing on the back of many of our reports, which is a positive development. That is probably the best example.

Willie Coffey: So that does not happen across the board.

Barbara Hurst: I suppose that, in a sense, it is easier in the health service.

Mr Black: That is an interesting issue. The committee might wish to consider over the summer months and into the autumn whether more can be done on that.

The Convener: We have available to us the new format of report-backs. We have identified a number of issues in recent reports on which we will get a report back in 2013. When we come to discuss the committee's way of working after the recess, it is definitely worth putting on the agenda the issue of ensuring that the committee plays its role in trying to ensure that recommendations are acted on.

Tavish Scott: I have two questions. The first relates to Mr Black's observations about the Cabinet Secretary for Finance, Employment and Sustainable Growth asking the Accounts Commission to look into community planning. I entirely endorse that move, as it is sensible. Can I take it that the report that Audit Scotland brought to us on economic development and the concerns that we expressed as part of our consideration of it will be taken into account in that exercise?

Mr Black: Yes.

Tavish Scott: My second question is on environmental auditing, which is the final stream of flex, or whatever Mr Gray called it earlier.

The Convener: That was the word that the Auditor General used.

Tavish Scott: Right. I am glad that that is on the record.

Audit Scotland is considering doing a report on renewable energy and another on how public bodies deal with emissions. Another parliamentary committee is looking into the issue of renewable energy in huge detail so, if I had a choice, I would choose the latter topic. My view is that the biggest challenge to public bodies in Scotland will be implementing the climate change legislation that the Parliament passed not so long ago. It would be enormously helpful—not so much for parliamentarians but for those bodies—to have work done on that. If there is a balance in the work, it should be towards that issue rather than renewable energy, given that a parliamentary committee is already doing work on that.

Barbara Hurst: That is a useful comment. We are aware of the work that is going on in the Parliament. We would not even finalise the scope for the renewable energy work until that committee reports, because we do not want to second guess what might come out of that. We agree that the climate change duties on public bodies are important, for environmental and financial reasons. We want to give enough time to allow the bodies to demonstrate what they are doing, so we do not want to begin too early. We are thinking about starting the work relatively soon, but reporting in 2013-14, which would enable that to happen.

Mary Scanlon: Paragraph 6 on page 2 of the briefing states:

"We would welcome thoughts from the committee about further potential areas for audit."

I confess that I am new to the committee. An issue that concerns me in local government but which we do not hear much about—so maybe I should not be concerned—is debt. For example, Highland Council has a debt of £761 million and annual interest payments of about £36 million. I have done a rough calculation, which shows that the council tax of pretty much everyone who lives in Inverness goes to servicing the debt. In answer to a recent parliamentary question, I was told that the overall total in Scotland is more than £14 billion. Am I wrong to be concerned about that? Is that just the way that councils normally work? I am simply asking for your advice.

Barbara Hurst: That issue is important in relation to financial sustainability. My financial colleagues are looking at the different ratios that are used to assess financial sustainability. That issue is within that, so it is something that we are looking at. Caroline Gardner, the new Auditor General, is interested in what we can do through the financial audit to develop our thinking on such issues. It will be on our radar.

11:45

Mary Scanlon: Should it be a cause for concern, or should I just accept that that is the reality of local government?

Mr Black: The language that we like to use is that it is clearly an area of risk that requires to be monitored.

Mary Scanlon: Well done. I can see why you have been the Auditor General.

Willie Coffey: In the previous discussion, I raised the issue of management standards. I would not expect Audit Scotland to recommend that particular management standards be used, but perhaps it could recommend that public sector bodies use whichever ones they find appropriate. My experience over the years is that it is a bit hit or miss whether public sector bodies adopt formal, recognised management standards. Maybe we could move towards asking the public sector to adopt recognised management standards that have proved over the years to be effective ways of delivering the work that they do.

Is there any scope in the programme to look at procurement? It can be a difficult subject, but it has featured on a number of occasions in the committee over the years. Could Audit Scotland look at whether we get value for money from procurement processes and whether they are fit for purpose? I know that procurement is covered in legislation, but there might be an opportunity for us there, perhaps through the capital programme work.

The Convener: It is certainly a strand of Audit Scotland's strategy.

Barbara Hurst: As part of what we were just talking about—local audit follow-up—we asked all our auditors to do some work on procurement. We are just getting the findings now and we are evaluating those. There may be a small publication out of that or we may decide to go into particular areas. It is certainly a big subject.

Willie Coffey: Good.

The Convener: That is something that we can raise in our dialogue with the new Auditor General.

If there are no further comments, I suggest that the committee notes the report.

As has already been noted, this is Bob Black's last appearance as Auditor General at the committee. Before we release the Audit Scotland witnesses, I put on record the committee's thanks to him and our appreciation for his service over the years. Bob has not only built the role up but built up the effectiveness, efficiency and reputation of Audit Scotland—including its international reputation—which has been recognised today. That is very much to his credit.

The key thing is that Bob's role as Auditor General has paralleled the beginnings and early years of devolution. Because one of the core arguments for devolution back in the 1980s and 1990s was that the efficiency, effectiveness, direction and accountability of the public sector in Scotland should lie in Scotland, the quality of audit available to us has been crucial for the Parliament and the Scottish people in delivering on that aspiration.

The fact that we spend so much, if not all, of our time arguing about how much more the Parliament should have responsibility for, is, if nothing else, an indication that devolution has worked. Although audit, and the quality of audit, may not always make the headlines, it has been central to the credibility of the Parliament as an institution. Bob's role over the years has been significant and he has discharged his duty in exemplary fashion.

It remains for the committee to wish you well in your retirement. As I am sure many others have said, our hope is that it is not too quiet and peaceful a retirement, because you still have a big contribution to make to Scottish public life. Thank you.

Mr Black: Thank you for your kind words. I appreciate them very much.

Section 23 Report

“An overview of Scotland’s criminal justice system”

11:50

The Convener: Under item 5, the committee will consider correspondence from the Scottish Government regarding the Auditor General’s report entitled “An overview of Scotland’s criminal justice system”. The latest piece of correspondence in response to the committee, which deals with reoffending rates, has been circulated to members.

Colin Beattie: The reconviction rate for Scotland of 44 per cent has suddenly gone down to 31 per cent. That seems to me to be an enormous restatement. We were worried that our figure was ahead of England’s and that our female reoffending rate was even worse. There has been no restatement of that but, given the different ways of gathering the figures, I presume that that will go down as well. The England and Wales figure seems to be roughly the same as the two-year reconviction rate, and the one-year reconviction rate for Scotland has presumably dropped from 44 per cent to 31 per cent. I find that degree of swing quite extraordinary. I realise that there are slight differences in how the figures are collected—some things are included, some are excluded and so on—but the England and Wales figure has stayed roughly constant while the Scottish figure has swung down radically to 31 per cent. That is contrary to what Audit Scotland has been telling us and the figures that have previously come before us. Can we get a wee bit better grip on what is happening, and some uniformity and a common base from which we calculate?

The Convener: Mr Beattie’s point is entirely fair. I am conscious that we have undertaken a correspondence series on the matter with the Scottish Government and that there is a report on reducing reoffending in the programme for future reports that we have discussed. I wonder whether we should note Mr Beattie’s point and return to it when we return to the issue of reducing reoffending. I am open to any other suggestions. Is that acceptable, Mr Beattie?

Colin Beattie: I am fine with that.

The Convener: Do members agree to note the correspondence and Mr Beattie’s point, and to return to the matter when Audit Scotland returns to report on reducing reoffending?

Members *indicated agreement.*

The Convener: We will now move into private session, so I ask any members of the public or the press to leave.

11:54

Meeting continued in private until 12:18.

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