



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

PUBLIC AUDIT COMMITTEE

Wednesday 26 September 2012

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PUBLIC AUDIT COMMITTEE **13th Meeting 2012, Session 4**

CONVENER

*Iain Gray (East Lothian) (Lab)

DEPUTY CONVENER

*Mary Scanlon (Highlands and Islands) (Con)

COMMITTEE MEMBERS

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

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

*James Dornan (Glasgow Cathcart) (SNP)

*Mark Griffin (Central Scotland) (Lab)

*Colin Keir (Edinburgh Western) (SNP)

*Tavish Scott (Shetland Islands) (LD)

*Sandra White (Glasgow Kelvin) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Paul Gray (Scottish Government)

Dr Andrew Scott (Scottish Government)

Christie Smith (Scottish Government)

CLERK TO THE COMMITTEE

Jane Williams

LOCATION

Committee Room 6

Scottish Parliament

Public Audit Committee

Wednesday 26 September 2012

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

Interests

The Convener (Iain Gray): It is 10 o'clock, so I open the 13th meeting of the Public Audit Committee in 2012. I welcome members, the press and public and the witnesses. I offer a special welcome to James Dornan, who joins the committee for the first time to replace Humza Yousaf. I ask everyone to ensure that their phones are turned off. We have no apologies this morning, although Tavish Scott has indicated that he might have to leave to undertake business at another committee.

Item 1 is to ask James Dornan whether he has any relevant interests to declare.

James Dornan (Glasgow Cathcart) (SNP): I have no relevant interests to declare.

Decision on Taking Business in Private

The Convener: Item 2 is a decision on taking in private item 4, which is a discussion on how we take forward the evidence that we hear today. Are we agreed?

Members *indicated agreement.*

Section 23 Report

“Learning the lessons of public body mergers—Review of recent mergers”

10:01

The Convener: The substantive item on our agenda is a section 23 report entitled, “Learning the lessons of public body mergers—Review of recent mergers”. The committee asked for evidence from the Scottish Government, and I welcome the accountable officer and his colleagues: Paul Gray, director general, governance and communities; Sarah Davidson, director, local government and communities; Dr Andrew Scott, director, employability, skills and lifelong learning; Christie Smith, deputy director, police and fire reform division; and Gordon Wales, deputy director, finance programme management division.

I invite Paul Gray to make an opening statement.

Paul Gray (Scottish Government): Thank you, convener. I welcome the opportunity to provide evidence to the committee in response to the Auditor General for Scotland’s report “Learning the lessons of public body mergers”, and the accompanying good practice guidance, which is helpful.

I am here in my capacity as the responsible officer for the Scottish Government’s policy on governance arrangements for the non-departmental public body sector as a whole. I have been briefed on a range of mergers, but if the committee wants a detailed response on any individual body, I will commission one from the relevant sponsoring director and accountable officer, rather than trying to give every single detail about every public body for which we have responsibility.

Sarah Davidson and Gordon Wales will be able to assist on governance and finance-related arrangements. Andrew Scott has a more detailed knowledge of the creation of Skills Development Scotland, which is the most significant of the bodies whose creation was examined by Audit Scotland, and in which I know the committee has expressed an interest. Christie Smith can help us if required on how we are applying the lessons learned that Audit Scotland has drawn to our attention.

The report and the accompanying good practice guidance provide a thorough and helpful analysis of some of the mergers that form part of the simplification programme. The guidance captures a lot of useful lessons to be learned, and we are already putting it into practice. It will help to inform

the work of the Scottish Government project teams and the public bodies as we pursue the Government's policy of simplifying the public bodies landscape.

The programme has changed the public bodies landscape considerably since 2007. The number of public bodies has reduced from 199 to 144, and will reduce further on present glance to approximately 112. There has been a significant amount of structural change in a short period of time against the economic background with which the committee is familiar.

I will say a few things about the specific recommendations in the Audit Scotland report. We fully agree that, wherever possible, permanent leadership should be in place before a merger takes place. We are now ensuring that governance and leadership arrangements for the new police and fire bodies are in place before the mergers commence, and there is evidence of that.

We agree with Audit Scotland's recommendation that the cost of public body mergers and the savings that are expected to be delivered should be regularly reviewed and revised as mergers proceed. This week, I have written to my colleagues who have accountable officer and sponsorship responsibility for individual public bodies, to remind them of the good practice guidance, and on Monday I will speak to public body chairs about that and about the need to ensure, as a matter of routine, consistent reporting of the costs and savings associated with a merger.

On performance, the Audit Scotland report provides helpful guidance, which we are promoting with our public bodies. We are considering how best to ensure that public bodies articulate the purpose and benefit of mergers, again in response to the Audit Scotland good practice guidance.

When we have had the opportunity to consider the committee's findings, I will ensure that we urgently refresh our simplification guidance, to ensure that we capture the lessons that have been learned.

The Convener: Thank you. I will kick things off with an issue that goes to the heart of the Auditor General's report. In paragraph 33, he—it was a "he" at the time—said:

"The absence of specific objectives, clearly articulated benefits and success measures for mergers makes it difficult for the Scottish Government and merged bodies to demonstrate that they have ... fully met the aims for each merger".

In paragraph 75, he said:

"Performance measures relating to the expected benefits of mergers were absent or underdeveloped in all of the mergers we examined. There is also little baseline information from the first year of operation of each body".

Audit Scotland was saying that it was difficult to assess whether mergers had delivered their objectives in relation to finance and sustaining or improving performance, because the objectives of the mergers were not clear from the start. That seems to be a fundamental weakness in the process. Is that a fair comment on the mergers that have taken place, which have been significant, as you said?

Paul Gray: I will say three things in response. First, there was an overall objective of simplifying the public sector landscape, reducing the number of public bodies and simplifying the services that are provided to the public and to the organisations that the bodies serve. I think that we can say that that objective has been and is being met.

Secondly, there is a judgment to be made about the extent to which the Government will set specific and detailed objectives prior to the appointment of a board of a public body. The balance that was struck was that it was for the Government to set the broad policy framework and for the public body board, including executive and non-executive members, to set the detailed objectives. We think that that has been done and that bodies can demonstrate that they are delivering against their objectives. Audit Scotland is perhaps challenging us about the balance of that judgment, but we think that we got it broadly right. In the work that is being done on mergers to reduce further the number of public bodies, we will certainly take account of Audit Scotland's point and ensure that, where we can, we provide further clarity on the overall objectives.

Thirdly, we have looked closely at how the performance of public bodies is measured and monitored, and we have put in place enhanced arrangements in that regard, which are helpful, although they were not put in place in direct response to the report. We have set out in one place, clearly and explicitly, the corporate expectations that we have of public bodies. The set of corporate expectations has been endorsed by the Cabinet sub-committee for public service reform and has been put to public bodies. We are moving properly in the direction of increasing clarity around such issues.

The Convener: Some of the bodies that we are talking about are charged with delivering fairly central Government objectives. For example, Skills Development Scotland is charged with delivering significant employability programmes and the apprenticeship programme. Are you saying that it is the responsibility of ministers to set a high-level objective, which you described as being to reduce the number of public bodies, and then for the new NDPBs to set their own objectives? That does not seem right. Surely it should be Government, and even ministerial,

responsibility to charge SDS—in the example that I have given—with its objectives, given that they are so central.

Paul Gray: No, I am not saying that precisely. I am saying that there was an overall objective but each public body had clear knowledge of ministers' policies, the national outcomes and the subset of indicators that sits beneath those that applied directly to it. Its policies would have to be aligned with those, which already existed when the bodies were set up. Ministers also gave guidance through sponsoring directors on specific issues that they expected the bodies to pursue.

I want it to be absolutely clear that I am not saying that the only objective was simplification. That was a substantial objective, but the outcomes and performance indicators already existed. I am happy to turn to Dr Scott on the specifics of how that applied to Skills Development Scotland, if you would find it helpful.

Dr Andrew Scott (Scottish Government): It is worth saying that, prior to the creation of Skills Development Scotland, the Government published its skills strategy in 2007. That strategy fulfilled a manifesto commitment and set the policy framework for Skills Development Scotland. The merged body enacted the priorities of the strategy.

The Convener: That implies that the performance measurements for the merged body were clear and known to everybody. However, Audit Scotland says that one of the problems that it had in judging the success or otherwise of the mergers was that such information was not available or, when it was available, was quite limited. It tended to refer to financial savings and, even then, it was quite limited because it tended only to refer to savings in staff costs and not to take account of other savings.

There is a bit of a contradiction there. Either Audit Scotland missed the objectives and success criteria for Skills Development Scotland, or they were not really as clear as you suggest. I do not understand how that discontinuity can exist.

Dr Scott: Well, the skills strategy is a statement of Government policy. It covers the whole of the tertiary education sector, including vocational training. A letter of guidance is also issued every year to Skills Development Scotland. It sets more detailed objectives that are consistent with that strategy. Therefore, I would argue that the policy context and the specific things that Skills Development Scotland was being asked to achieve besides becoming more efficient in its provision of services were reasonably plain.

The Convener: Are you saying that, in essence, the objectives of the merger were set by the Scottish ministers because they were the

employability objectives that Skills Development Scotland had to deliver?

Dr Scott: The policy was set by the Scottish ministers and the objectives for Skills Development Scotland in discharging that policy were set by the Scottish ministers in the shape of their guidance letter to the body.

The Convener: Why did Audit Scotland have difficulty judging whether those performance indicators had been delivered against? I cannot understand why it would not have been able to see that.

Paul Gray: We accept that, in the description of the Government's policy and the letters that go to all the public bodies, we could have said more explicitly what specific parts of the policy we expected to be achieved as a result of the mergers. I am not claiming that we did that, but I am saying that the judgment was that the merged bodies would be better able to deliver that set of policies. We did not say, "Of these things, numbers 3, 5 and 6 are specific to the merger and numbers 1, 2 and 4 are not."

The Convener: Okay.

10:15

Mary Scanlon (Highlands and Islands) (Con): I was one of the MSPs who voted for the Public Services Reform (Scotland) Bill, but I seem to remember that it was a unanimous vote. We were in favour of a bonfire of the quangos and reducing duplication and bureaucracy and enhancing service delivery. I was therefore looking for information on that in this section 23 report. The Cabinet Secretary for Finance, Employment and Sustainable Growth said in his letter to Tavish Scott:

"As you will see, the figures demonstrate that the merged bodies are delivering considerable savings to the Scottish budget in line with the ambitious targets we have set".

I find it impossible to reconcile what is in the Audit Scotland report with the intentions. The report looked at only four mergers. The estimated merger costs were £30 million, but actual costs at the time of the report were £42 million. Paragraph 55 states that that cost

"is likely to be an under-estimate of the full cost of the mergers."

Paragraph 59 states:

"The assessment of costs is ... incomplete because ... merged bodies are still incurring costs ... Therefore, in the mergers we examined, we cannot say how much mergers have cost in total."

The most damning indictment is in paragraph 66, which states:

"Also, we do not know which efficiency savings were made because of the merger or whether they could have been achieved without merging".

We are sitting here as elected members of Parliament at a time when the number of public bodies has gone down from 199 to 144 and is going down to 112, and in a year when the police and fire services are being merged into single boards, but we find nothing in the report that says that the policy has been enacted. The other most damning point is that there is no baseline information to compare with. You can sit and juggle with figures, but we do not know whether mergers are a good idea.

You have referred people to the good practice guidance and the lessons that have been learned, but do you agree that there has been not just a bonfire of the quangos but a bonfire of disaster?

Paul Gray: No, I do not agree with that. I understand your points about the clarity and attributability of savings but, as I understand it, we projected savings of £73 million from a reduction in the number of bodies and so far we have delivered £78 million. Tavish Scott asked a parliamentary question and received follow-up information from the Cabinet Secretary for Finance, Employment and Sustainable Growth that sets out our current estimates of the costs and savings.

I have made clear that I accept Audit Scotland's point that the attribution could have been clearer, but I think that we have presented factual information as clearly as we can that supports the assertion that the savings that were expected to be delivered are broadly being delivered. There have been some changes to the specifics of the areas in which they have been developed. We are clear that further savings will be delivered from the bodies that have already been merged. I do not dispute the point that the attribution of the savings could have been clearer.

You also asked whether some of the savings could have been made without the mergers. All I can say is that some certainly could not. For example, where three or four bodies are merged, that allows having one chief executive and one finance director, which cannot be done without merging bodies. Another example is that I understand that the merger that created the James Hutton Institute has given access to a wider set of sources of funding and has enhanced Scotland's reputation for science on the world stage.

I think that there are benefits from mergers, but I do not dispute your central point about attribution of costs and savings.

Mary Scanlon: You mentioned £78 million, but I can speak only to what is in the report. I can talk

only about what is in the "Key messages" section before paragraph 47 on page 18; I cannot bring in any other figures. What the report refers to is estimated costs of £30 million and actual costs of £42 million and rising. Audit Scotland says that it has no idea how much the costs will be in the longer term. Do you agree with that? Has Audit Scotland got it wrong? I am looking only at what is in the report; I cannot look further than that, because I do not have that information here.

Paul Gray: I had thought that the information we provided to Mr Scott had also been sent to the committee with a covering letter from me.

The Convener: It has been circulated to the committee.

Paul Gray: That is the latest information that has been signed off by the cabinet secretary. Obviously and evidently, I stand behind that information as presented to the committee. I am not disputing the fact that, in the case of Skills Development Scotland, some of the costs have gone up. However, in time, some of the savings will turn out to be higher than predicted, which will rebalance the situation. A number of additional costs for early severance were incurred when SDS was set up and the mergers had taken place but, in this and future years, those costs will deliver further savings as they crystallise. I am happy to commit to writing further to the committee with information on that, but I have to say that I do not think that in any programme of this shape and size the costs predicted at the beginning will be exactly the same as those incurred at the end. For example, the economic circumstances have changed substantially. Nevertheless, there has been a determined pursuit of delivering these savings in these public bodies and I believe that we have presented evidence to the committee today that shows that the savings are being delivered.

Mary Scanlon: On the mergers that are to take place over the coming year and which are significant—indeed, there was a report this morning on related matters—can you guarantee that lessons have been learned from what I see as certain errors that have been made and that, as a result, the process will be streamlined between now and next year, when the new fire and police boards are to be set up?

My second question is not about money. Has service delivery in all the merged services improved?

Paul Gray: I am genuinely happy to give you an unequivocal yes to your first question on whether the lessons that have been learned have been applied. I give Christie Smith notice that I am going to turn to him in a second to tell you how

they are being applied to the police and fire boards.

Was your second question on the delivery of the savings?

Mary Scanlon: No. I asked whether service delivery has improved as a result of the mergers.

Paul Gray: Yes, I think that we have evidence that it has. For example, SDS has delivered a record number of modern apprenticeships, has introduced new and modernised customer services and is delivering back-office shared-service efficiencies. I also note that, in September 2010, the Scottish Trades Union Congress wrote to the Economy, Energy and Tourism Committee and said:

“the establishment of SDS brought with it much greater clarity over roles and responsibilities in the delivery of skills support across the Scottish economy.”

I do not want to give you 101 pieces of evidence. However, I have already mentioned the improvements that have been brought about at the James Hutton Institute; I also point to the integration of what was the Scottish Agricultural Science Agency into the Scottish Government, which allowed us to introduce an improved information technology system that, according to the external industry, has produced benefits. I think that we have evidence that the mergers are producing benefits; I do not want to take up the committee’s time unduly by giving a long list, but I am happy to do so if members would find it helpful.

The Convener: We might be able to cover some later, but we should move on to other colleagues.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Following on from Mary Scanlon’s point about costs, I note that page 18 of the Audit Scotland report specifically says:

“Merged bodies did not record or report merger costs fully”.

I presume that your figures miss out some of those costs, or have you gone back, picked them up and included them?

Paul Gray: When Audit Scotland asked the four bodies on which it was doing a detailed analysis whether they had those costs readily to hand, the answer was no, and we accept that. We subsequently—we used this information in response to Mr Scott’s written question—conducted an exercise to derive those costs. The figures are the best estimates of the bodies concerned, and they include the costs attributable to the merger.

One point that Audit Scotland is making is whether costs associated with, for example,

systems and processes were properly attributed to the merger, too. Simply put, as time goes on, that is more difficult to do. For example, if, two years into a merger, the new organisation needed a new finance system because its software was out of date, it is difficult to say whether that was directly a result of the merger. Some of the costs that are now being incurred are just the body’s routine running costs. However, costs such as those related to early severance schemes or an organisation being required to take on different accommodation as a result of its merger, would be included.

As a result of the report, we are now asking bodies that are involved in, or are anticipating, mergers to be clear about the costs that they will attribute to the merger and those that are part of their simple on-going running costs. Very much in line with my response to the convener about objectives, the body will have some standing objectives and other, specific objectives that will be driven through as a result of the merger. We are seeking to make that clearer.

Colin Beattie: A point that comes across strongly in the Audit Scotland report relates to staff costs. Those seem to be the major driving cost in the merger and, obviously, that has been highlighted. Are you satisfied now that not only staff costs but all costs are being adequately captured?

Paul Gray: I am satisfied that we are doing that now. In the past, the attribution was not as clear as it should have been.

Colin Beattie: Do you now have sufficient performance indicators in place so that the Scottish Government can assess the impact of the mergers on performance and service delivery?

Paul Gray: I am certain that we will ensure that that is the case for bodies that either are being merged or are expected to be merged.

Colin Beattie: On quite a number of occasions in the course of discussing Audit Scotland reports, the committee has received comments about a lack of performance indicators and measurements. Those comments have occurred so often that you will have to forgive us if we keep coming back to the issue. If you have those indicators in place, that is a huge step forward. Are you absolutely satisfied that you have the measurements and indicators in place to manage the process?

Paul Gray: I am satisfied that we have those in place for the bodies for which a merger is in prospect. As I have said, I am speaking to the chairs of public bodies on Monday, and we will reinforce again the messages from the Audit Scotland report to existing bodies, too.

One of the four pillars of public service reform relates to driving up performance through transparency. We are driving with public bodies generally—not only in the NDPB sector—the principle that making performance transparent is in itself a good way of driving up performance that is consistent with the Government's policy in that area.

Colin Beattie: Paragraph 22, on page 10, refers to the long-term visions and strategic objectives for the organisations. Are you satisfied that the deficiencies in those areas have been dealt with?

Paul Gray: I am. I am hesitating slightly because, in effect, you are asking me to enumerate for every single public sector body in Scotland what precisely its vision was, and to say whether it was a clear and accurate exposition. I do not want to leave the committee feeling that I am being equivocal about that. I am satisfied that we are taking direct and active steps to ensure that that is in place. Am I satisfied that every single public body in Scotland has a perfect statement of its visions? I would not give that commitment to the committee because it would not be wise to do so. However, I am satisfied that we are taking the steps to ensure that that is so.

10:30

Tavish Scott (Shetland Islands) (LD): In paragraph 66, Audit Scotland said that, because of a lack of performance information,

"it is not possible to determine if the efficiency savings reported have affected service quality or productivity."

Is that a fair assessment of what has happened in the past, as opposed to what you expect to happen in future?

Paul Gray: Yes. I was not sure whether I should read that as a criticism or a neutral statement. I accept it as a neutral statement. In my responses to the committee I have tried to show that we think that we have evidence of demonstrable improvements in performance in the bodies concerned.

Tavish Scott: In paragraphs 31 and 32, Audit Scotland said that the Scottish Government did not set specific success criteria for individual mergers. Similarly, is that a reflection on what has happened in the past, as opposed to how you expect mergers to happen now or in future?

Paul Gray: I will not repeat what I said to the convener. In some cases, there was not a clear exposition of the distinction between policy objectives that were directly attributable to the merger and policy objectives that would have pertained in any case. I am happy to accept that we could be—and are being—clearer about that.

Tavish Scott: You mentioned the toolkit—the Audit Scotland guidance, which the Government has accepted. Has the guidance been fully implemented in respect of changes to the police and fire services?

Paul Gray: I gave Mr Smith notice that I would turn to him, so I do so now.

Christie Smith (Scottish Government): I am grateful for the opportunity.

We have to bear in mind that the police and fire change has not yet happened—it will happen on 1 April next year—and is of a different character from the other mergers that are discussed in the report. We are not merging non-departmental public bodies that are sponsored by, funded by and under the control of the Scottish Government. Until midnight on 31 March responsibility and accountability for police and fire and rescue services in Scotland will lie with the joint boards and the police and fire authorities that currently have that responsibility.

We are in a planning and preparation phase, and we have just reached a crucial stage, in that we have managed to appoint the chairs and leaders of the services, slightly more than six months before the services are due to start. We will work with them over the next six months on the regime that will apply to the Scottish police authority and the Scottish fire and rescue service from 1 April. By that date, they will have had the remit, the objectives, the guidance and the management letter. The framework will be in place and all that documentation will reflect the up-to-date guidance from the Scottish Government on how to track benefits, measure costs and savings and respond to the recommendations in the Audit Scotland report, as our general approach to measuring performance in public bodies emerges.

Tavish Scott: Does that mean that the performance criteria for the new single police force that we should all expect—as citizens, never mind as MSPs—have been set, or are they being worked on? Will we understand fully what the criteria are only on 1 April?

Christie Smith: We set out the three aims of reform in September 2011, when we announced the change. I remind members that they are:

"Protect and improve local services despite financial cuts; by stopping duplication of support services eight times over and not cutting the provision of frontline services; Create more equal access to specialist support and national capacity ... where and when they are needed",

and

"Strengthen the connection between services and communities; by creating a new formal relationship with each of the 32 local authorities".

The three aims have been consistently maintained since then and form the basis of the working up of benefits realisation plans, which explain in more detail how we will know that the aims are being met, what actions will lead to them being met, what those actions will cost, how long they will take, who will be responsible and so on. The plans are being worked up for the two services and will be ready for 1 April, when the services come into being.

Up to now, there has been no Scottish public reporting system for the fire and rescue service; however, the Scottish fire and rescue advisory unit is working with the service and the Scottish Government on such a system. Although we have had an overarching performance reporting framework for police—the Scottish policing performance framework—it will have to be completely refreshed and updated for the new service and, as we speak, Her Majesty's inspectorate of constabulary for Scotland is working with us and the service on that. It should all be ready to go for 1 April to ensure not only that we are able to track the services' performance but that the public get appropriate reports on how they are doing.

Tavish Scott: That is fine, and I appreciate that those are three high-level objectives that have been set by ministers. However, most of the public are interested in certain performance criteria, such as crime detection. In my part of the world, crime detection by the Northern Constabulary has been very high—indeed, the force should be commended for the fact that the level in its area is comparable to the level anywhere else in the United Kingdom. Bearing in mind Audit Scotland's attempt to provide us with information on how other mergers have worked I am not sure that after 1 April a citizen living in Lerwick or Inverness will know how the police are performing relative to past performance. Will we know that in future? Will that information be publicly available?

Christie Smith: Yes, we will know that. At present all the police forces have slightly different performance measuring and reporting systems, but they all measure detection and clear-up rates and so on. In fact, in comparison with UK police services, all the Scottish forces have high clear-up rates.

That information will undoubtedly form part of the new performance framework. However, as far as the citizens of Lerwick and elsewhere are concerned, under the new structure there will be a local commander and a local plan for each local authority area, and each council will have the opportunity to propose performance measures, agree them with the local commander and hold the local commander to account for performance against them. That will not only enable us to have

a national overview of detection rates for, say, comparative purposes but allow specific local priorities and measures for the locality to be incorporated.

Tavish Scott: Last night I read online a number of very clear statements about reform that had been made by the new chief constable, who was appointed only yesterday. How will the governance arrangements work? Mr House sounds as if he is pretty opinionated about all this stuff. Why was he free to make those comments last night about reform? Was he responding to ministers' criteria or was he simply expressing his own views, having just been appointed to the job?

Christie Smith: Part of the job role specification was that we needed someone with clear views on taking forward the police service of Scotland over the next few years. If that involves turning 10 organisations into one, that will mean some organisational changes.

I did not really pick up from the online reports of the appointment anything that struck me as inappropriate or indicative of instruction from the cabinet secretary. Under the new governance arrangements, the chief constable will be accountable to the Scottish police authority, the chair of which we appointed last month; in turn, the authority will be accountable to Scottish ministers, Parliament and so on.

Tavish Scott: I appreciate that. I asked the question because of the recommendations in the Audit Scotland report on leadership, which are about governance and how the structure of organisations might relate to central Government in future. In that context, I simply wondered whether the new chief constable's remarks were absolutely in line with those recommendations on leadership.

Christie Smith: I am not aware of any remarks that he has made that are not.

Tavish Scott: That is fine. My view of these things is probably different from yours; all I am doing is looking at that part of the Audit Scotland report.

As other colleagues have pointed out, Audit Scotland has stated on record that the costs of previous mergers have been underestimated. Given that statement, can you assure us that the costs of the police merger, which by anyone's standards are enormous—after all, this is the second biggest police force in the whole of the UK—will be as advertised?

Christie Smith: There is no doubt that the cost estimates are still estimates. Hardly any of the costs have been incurred; some are being incurred this year, and we have a firm grip on them.

We have done our best to ensure that the estimates are robust. The initial cost assumptions were produced by police officers in Scotland and reviewed by consultants who benchmarked them against police forces and fire and rescue services throughout the UK.

In a second phase, specialists in each police function developed a model for policing in Scotland, which was costed, reviewed by consultants and benchmarked. We profiled those cost estimates over five years and turned them into an outline business case, which followed Treasury green book guidance and was reviewed by Scottish Government economists. Those costs were subject to optimism bias, so they were increased and the savings were reduced, to test them for robustness.

We published the draft OBC for comment in June 2011. After comments from stakeholders, a final version was published in September 2011. We refined that further into what was probably the most detailed financial memorandum to be submitted along with a bill, which was published in January this year. Both services continue to work on refining the estimates of costs and savings. We have supplied them with independent consultants to support that process and with financial experts to help them.

We will not know whether we were right until the reform happens, but we have done everything that we can and we have taken account of the lessons of previous mergers and of Audit Scotland's views. We have been in touch with Audit Scotland throughout the process, so we have done everything that we can to ensure that the estimates are as robust as possible.

Tavish Scott: That reflects Audit Scotland's work in the past and its recommendations to the Government in the report on what needs to be done to ensure that the figures are stronger than they might have been—if I may say so—of previous mergers.

Christie Smith: Absolutely. As I said, we have been in touch with Audit Scotland throughout the process. We spent half a day with it in April, going through the report's emerging findings, exploring the evidence and debating its relevance to police and fire service reform. We will be happy to take on board further suggestions, but we have so far done everything that we can think of to ensure that the estimates are robust.

Willie Coffey (Kilmarnock and Irvine Valley) (SNP): It is nice to get an early glimpse of a possible future committee meeting about police reform.

Twenty fewer public bodies, 18 mergers, £100 million saved with more to come and evidence of continuing service improvement might be a

disaster for somebody, but not for the Scottish Government. The aims that Paul Gray described, which the cabinet secretary set out, have been more than met and delivered. That must be welcomed and should be on the record.

I have questions about objectives for the new bodies and about how we assess and measure performance in the future. Do the mergers to date show that, by and large, bringing together two bodies to carry out the functions of the sum of their parts necessitates a radical review of their objectives, or is it fair to say that the bodies' objectives after some mergers were pretty much as they were before and will continue to be so?

Paul Gray: Both aspects could be true. For example, the merger to create Social Care and Social Work Improvement Scotland—the care inspectorate—involved bringing together social work and care bodies. The objectives in social work and care were clear; the benefits came from delivering those objectives through bringing together the bodies.

Earlier, I should perhaps have drawn the committee's attention to exhibit 5 in Audit Scotland's report, which sets out briefly the objectives for the care inspectorate, Creative Scotland, Marine Scotland and Skills Development Scotland. I do not want to leave the committee with the impression that there were no such objectives. I think that I am being asked whether the objectives and costs that were specific to mergers were clearly attributed to those mergers.

To answer your question, some objectives could be met only by, or would be better met by, merging bodies, but other objectives were subsisting and would continue regardless. Is that what you were asking about?

Willie Coffey: Yes. On reflection, we probably want early clarity about whether a new, merged body basically carries on the functions of the sum of its parts or whether we expect it to take new directions and have new purposes. Perhaps clarity about that at an earlier stage might have been helpful in informing our discussion.

I will move on to how we assess the bodies' performance. In some cases, it is the early stages, but several members around the table have, in the past, raised the subject of how we assess performance and outcomes. In your opening remarks, you mentioned that good work is going on to promote the assessment of performance improvement in the merged bodies. Can you give us examples of what is happening to achieve that?

10:45

Paul Gray: I will ask Dr Scott to say something about how that improvement is being promoted in

Skills Development Scotland. It is worth pointing out that the Audit Scotland report recognised that, in the case of Marine Scotland, for example, a plan was in place, and governance was in place, beforehand. Marine Scotland has been able to publish a full business plan with a statement of what it is looking to achieve, and there is evidence about what it has achieved.

We are asking each public body concerned—not only the merged bodies—for an enhanced statement of assurance about the delivery of its objectives this year. I will receive an interim report on that in relation to corporate objectives in November, and we will follow up the matter with the statements of assurance provided by the accountable officers relating to the current financial year. Therefore, we are doing things in addition to what we did before in order to assure ourselves about performance, delivery and the achievement of objectives.

Willie Coffey: At a future meeting of the committee, we will be interested, as we are wont to be, in the developing performance of all public bodies in Scotland that Audit Scotland has a remit to look at and oversee. We will therefore want to ask such questions at some point in the future, and we will want evidence to be presented to us either through Audit Scotland or by the bodies themselves. The committee is keen to see the evidence in black and white in the future, and I very much look forward to that development.

The Convener: Mr Smith talked about working with Audit Scotland on developing the estimates of the costs of the mergers. That is welcome, but Mr Coffey is looking ahead to the future. At some point, because of their shift from local government responsibility to national responsibility, we will be looking at performance audits of the police service or the fire and rescue service. I think that Mr Coffey is right. Sometimes there is a theme that comes through when we look at Audit Scotland reports. It appears that bodies that it audits do not keep the information that it thinks would be useful to them, or information is difficult to find. In constructing the new bodies, are you working with Audit Scotland on those performance audit channels so that the figures will be clear and available when we look at performance in future years?

Christie Smith: Yes, we have to do that, not least because Audit Scotland will become the auditor of those services for the first time. They are currently in the local government sector and the Accounts Commission has an overview, but in future, they will be within the purview of Audit Scotland. Therefore, we will be working with them to ensure that they have the financial capacity to prepare accounts in the correct form and do all the other things; we will also ensure that we build the

recording of costs and savings and performance measures into the annual cycle. I would not be surprised if Audit Scotland has not got in mind a reasonably early review of how things are going. We will talk to Audit Scotland about that, as is normal.

The Convener: Thanks. That is helpful.

James Dornan: My question is for Mr Gray. You spoke about successful mergers—I think that you mentioned the James Hutton Institute. Do you use it and the other successful mergers as a guide to how mergers should be completed in the future? If so, how will you take things forward? Will you try to put milestones in place? Do you look at successful mergers, see what works, and try to use them as guides for the police and fire service mergers, for example?

Paul Gray: As Christie Smith said, the police and fire service reforms already take account of the guidance. However, as I said in my opening remarks, I am giving the commitment that, once the committee has completed its deliberations, we will refresh our simplification guidance to reflect any further comments that the committee might make.

We are moving in that direction; we are not simply sitting on our hands and waiting until the committee produces its findings. For example, one of the things that Marine Scotland did well was to have a three-year strategic plan and to ensure that there was clarity about what was to be delivered during the period from 2010 to 2013. We are ensuring that public bodies generally have a strategic statement of their longer-term as well as their short-term intentions, so that there is clarity about their direction of travel over three years rather than just one year. We attach considerable importance to that, because if public bodies operate simply on an annualised basis—I am not suggesting that they do—there can be cliff edges in their planning. Through the letters that we send and the activities of the sponsoring directors who oversee the relationship, we assure ourselves that we are confident that those bodies are looking ahead in their strategic planning.

James Dornan: Further to that, are you suggesting that there will be some kind of flexible template—I know that that is an usual phrase—or rough guidance about the process that should be gone through with mergers?

Paul Gray: Specifically on mergers, we already have guidance that is provided to the sponsoring areas and the merged bodies, which includes a number of statements of guidance on specific aspects of the merger, how it ought to be undertaken and the necessary project planning and governance arrangements. We are also strengthening and developing what we say about

attribution of costs and reporting on those costs. There is not a specific, one-size-fits-all template, but there is a set of guidance that is clear about what we expect the public bodies to do and how they should report on that.

Mary Scanlon: That goes back to my point about enhanced service delivery, which we are all looking for. Paragraph 31 says:

“the advance planning provided no clear criteria against which to assess whether merged bodies were meeting these aims.”

Paragraph 32 says:

“merging bodies ... did not consider ... the service improvements expected”.

Paragraph 33 says:

“The absence of specific objectives ... makes it difficult for the Scottish Government and merged bodies to demonstrate that they have”

met their aims or delivered benefits.

Did Audit Scotland misunderstand the guidance that was given or the work that was done? I have listened carefully to what you have said, which I find difficult to reconcile with those three paragraphs.

Paul Gray: I accept that, in the past, some of the attribution could have been better. In responding to Mr Dornan, I was looking to give the committee an assurance that we have recognised the points that Audit Scotland made and that we are now ensuring that its criticisms should not arise again.

Mary Scanlon: So when you said that you already had guidance, that guidance was not used in the mergers that were examined in the report.

Paul Gray: The guidance was provided to all the bodies involved in the mergers. Some of them applied it more rigorously than others.

The Convener: I call Sandra White—

Paul Gray: Just to be clear, convener, the merger that resulted in the formation of SDS preceded the guidance.

Sandra White (Glasgow Kelvin) (SNP): My question follows on from Mary Scanlon's points. Basically, Audit Scotland's report says that there are no clear criteria and it talks about the costs and estimates. I am summarising, so you can tell me whether I am wrong, but you have said that the information was not clear enough, and that you will look at that, which is absolutely fine. You also mentioned that the clear criteria for the merged bodies were in policy that was set by the Scottish ministers. You mentioned the costs and estimates, which Mary Scanlon asked about. You said that, if a body needed a new computer system, that would add to the costs and that chief executives'

packages also add to the costs. Perhaps that did not come across clearly enough for Audit Scotland to have looked at it properly in the report. Is that a clear and concise summary of what I have picked up?

Paul Gray: It is, in principle, but I will make two points, in case I have left the wrong impression. My point about an organisation requiring a replacement finance system two years in was that that might or might not be a consequence of a merger—it might simply be to do with the fact that the software is out of date.

On objectives, earlier I drew the committee's attention to exhibit 5 on page 14 of the report, which shows that there were high-level objectives for the care inspectorate, Creative Scotland, Marine Scotland and Skills Development Scotland. Exhibit 10, on page 25, which is on measuring performance, gives evidence of the improvements that those four bodies have made.

That is all I would add.

Sandra White: We are talking about a reduction in the number of public bodies from 199 to 144 and then to 112. Will any costs be incurred from that through voluntary exit schemes?

Paul Gray: Do you mean in relation to future changes?

Sandra White: Yes.

Paul Gray: Without going into specifics, I would say that, if the mergers involve a reduction in the number of staff who are required, it is entirely possible—indeed, it is likely—that that would be achieved through voluntary severance.

Sandra White: You mentioned that lessons have been learned from the Audit Scotland report. This might not be going as far into the future as my colleague Tavish Scott did in relation to the police reforms, but if we move to 112 bodies and there are voluntary redundancy packages, will that be reflected in the information that is before us, so that Audit Scotland does not have to say that there are hidden costs?

Paul Gray: Absolutely. If the costs are a direct result of a merger, they should be reflected and they should be visible.

Sandra White: In your opening remarks, you mentioned regular reviews. You have answered honestly about the criteria and you said that lessons have been learned. That is what we are here to find out. In the regular reviews that you carry out, will you look at information sharing and the lessons that have been learned? You said that a body will be set up to consider the mergers that have happened and the lessons that can be learned for the future. Is that the type of thing that you will consider in the regular reviews? Perhaps

you will even consider how the Scottish Government can show more leadership in mergers.

Paul Gray: One reason why we have taken more active steps to bring together the chairs of public bodies—as we will do at the meeting this Monday coming—is that we want to ensure that we share lessons that have been learned and the experience of what is going well and not so well, in order to ensure that we get maximum benefit. I chair the public service reform board, which seeks to draw on the lessons that have been learned by bodies and organisations from far beyond the NDPB sector, in health, local government and the third sector, to ensure that we continuously improve how we deliver mergers and services generally.

Mark Griffin (Central Scotland) (Lab): The report states that Marine Scotland was the only one of the merged bodies that had regular independent reviews. Is there any particular reason why it was the only body that had such reviews? Will there be similar reviews as we proceed with more mergers?

11:00

Paul Gray: There are, perhaps, two parts to my answer. Audit Scotland commended Marine Scotland for using what were, in effect, non-executive directors to give an external view, and for looking regularly at how it was doing. Perhaps Andrew Scott can say a bit more about how it works. We expect boards of public bodies to have, after they are established, non-executive members, in order to ensure that they undergo external scrutiny.

The accountable officers of public bodies—merged or not—must provide an annual statement of assurance on progress against objectives and expenditure and we also, from time to time, conduct a broader review of the purpose of public bodies in order to ensure that they are staying on track. The approach that Marine Scotland took was particularly strong. Again, we are sharing that with other bodies to ensure that they learn lessons from it.

The Convener: I want to follow up on those last two comments. You have said a couple of times that you have on Monday a meeting with the chairs of NDPBs at which you will be talking about some of the lessons. However, it is the chairs and chief officers of those bodies that are merging who have the specific responsibility to learn the lessons from the mergers. A lot of the chairs whom you will be meeting on Monday are chairs of bodies that are not about to enter into mergers. They might be interested, but it is important that those who are involved in the leadership of the new police and

fire bodies learn the lessons, and learn from the experience of those who have been involved in previous mergers, some of which have been—I cannot remember exactly the phrase that you used—better than others.

What are you doing to ensure that not just you and the Scottish Government learn lessons, but that those who will have to deliver the major mergers also learn the lessons and follow the good practice in the Audit Scotland guidelines?

Paul Gray: This is not the only answer to your question by any means, but that is why I wrote yesterday to all the directors in the Scottish Government, without exception, some of whom have sponsoring responsibilities for bodies that are being merged, some of whom have sponsoring responsibilities for bodies that are not being merged, and some of whom have no sponsorship responsibility in their roles. That is why I wrote to them all with the lessons and said that, as I would be accountable for the overall delivery of the reform programme, I expect to receive assurances that the lessons are being implemented. For example, the police and fire bodies will not be represented at the meeting on Monday, which is why Christie Smith joined us today so that we can give the committee the assurance that we are taking the situation seriously.

I do not want to overemphasise the point in any way, but I would not normally come to a committee like this with four other colleagues. The fact is that I genuinely want to give evidence to the committee that we are taking the situation seriously. We are not saying that we hope that it will blow over; we think that what Audit Scotland is suggesting is worth pursuing.

The Convener: Thank you.

Do any colleagues want to come in with short final questions?

Tavish Scott: I have a question about the supplementary information that was provided in an answer to my parliamentary question. I just want to get a flavour; I am not asking about specific details because I take Paul Gray's earlier point.

Page 4 of the submission mentions the absorption of the Scottish Institute of Sport into sportscotland and the merger that became Marine Scotland. The savings figures that are now the revised estimates/outturns are very certain. For sportscotland, the savings go from £0.039 million to £0.737 million and then continue in that way for four years. Similarly, the savings for Marine Scotland are £3.6 million for three years. How can there be such cast-iron and absolute certainty about that when Paul Gray made the point that staff costs have probably been taken out at the start? In Marine Scotland's case, 22 staff

members went from an organisation of 700 right at the start. How can there be such certainty around the figures? I do not expect Mr Gray to know the details, but I would like a broad picture.

Paul Gray: In Marine Scotland's case, the savings are simply a statement of what will be retained after the merger has taken place. That is why the figures remain steady at £3.6 million from 2010-11 onwards. The savings will be delivered by adopting a more aligned staffing structure and through organisational change. There was also the sale of an ageing asset, which I think was a boat. The savings are straightforward and linear thereafter.

Tavish Scott: Would it be possible to provide the committee with a bit of background on those two examples so that we can understand how the figures will remain linear over time?

Paul Gray: Are you talking about sportscotland and Marine Scotland?

Tavish Scott: Yes.

Paul Gray: Yes. That would not be difficult.

The Convener: Did you buy the boat Mr Scott? Is that an interest that you should have declared? *[Laughter.]*

Tavish Scott: I know where it is.

The Convener: I thank committee colleagues, and I thank Mr Gray and his colleagues for their evidence this morning. It is much appreciated.

11:06

Meeting continued in private until 11:25.

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