



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### **PUBLIC AUDIT COMMITTEE**

Wednesday 11 June 2014



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**PUBLIC AUDIT COMMITTEE**  
**13<sup>th</sup> Meeting 2014, Session 4**

**CONVENER**

\*Hugh Henry (Renfrewshire South) (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)

\*Bruce Crawford (Stirling) (SNP)

\*James Dornan (Glasgow Cathcart) (SNP)

\*Colin Keir (Edinburgh Western) (SNP)

\*Ken Macintosh (Eastwood) (Lab)

\*Tavish Scott (Shetland Islands) (LD)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Angela Cullen (Audit Scotland)

Caroline Gardner (Auditor General for Scotland)

Gordon Smail (Audit Scotland)

**CLERK TO THE COMMITTEE**

Jane Williams

**LOCATION**

The James Clerk Maxwell Room (CR4)



## Scottish Parliament

### Public Audit Committee

*Wednesday 11 June 2014*

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

### Decision on Taking Business in Private

**The Convener (Hugh Henry):** Good morning and welcome to the 13th meeting in 2014 of the Public Audit Committee. I welcome the Auditor General for Scotland, and Gordon Smail and Angela Cullen from Audit Scotland.

Do members agree to take item 5 in private?

**Members** *indicated agreement.*

## Section 23 Report

### “Scotland’s public finances—A follow-up audit: Progress in meeting the challenges”

10:00

**The Convener:** Agenda item 2 is consideration of a section 23 report on “Scotland’s public finances—A follow-up audit: Progress in meeting the challenges”. I invite the Auditor General to brief the committee.

**Caroline Gardner (Auditor General for Scotland):** The report that I bring before the committee is the third in a series of reports on Scotland’s public finances and is a follow-up to Audit Scotland’s 2011 report, which focused on addressing the challenges that we face in that respect.

The report provides a high-level update on the financial position of the public sector since then and comments on how bodies right across the public sector are meeting the challenges of reduced public spending. It is aimed at public bodies, including national health service boards and central Government bodies, and it raises a range of important issues for those involved in scrutinising public finances, including non-executive directors, chief executives and other board members.

The challenges of increasing demand and cost pressures have been evident for some time now and indeed have been a constant theme in reports that have been brought before the Public Audit Committee in recent years. Almost three years on from our previous update, finances remain tight and most public bodies expect further budget reductions in the years ahead. Those reductions, the ageing population, changes to the welfare system and the need to provide and maintain public assets such as hospitals and prisons are just a few examples of the continuing pressures that public bodies face today.

During 2013, the auditors of 67 public bodies examined and reported on how those bodies are meeting the challenges of budget reductions, and my report provides a high-level summary of the main themes arising from that work and identifies what more needs to be done. It provides the context for the sector-specific checklists that we have published alongside the report and which are aimed at supporting awareness and improvement. The report emphasises the importance of focusing on priorities when setting budgets, of long-term financial planning and of the key role of non-executive directors in ensuring that bodies are well positioned to deliver quality services for less money.

Since 2009-10, the Scottish departmental expenditure limit budget has fallen 9 per cent in real terms to just under £29 billion in 2014-15. So far public bodies have coped well with those reductions, mainly by reducing staff costs, but with further reductions expected, such measures are not sustainable, and public bodies face increasingly difficult choices in reducing spending while maintaining quality and meeting rising demand.

To help manage those challenges, public bodies need to focus more on their priorities when setting their budgets and to make clearer connections between what they plan to spend and the outcomes that they are trying to achieve. Rigorous use of options appraisal based on good information is required for effective budget-related decisions and for making those decisions clear and understood to the communities that public bodies serve.

We found limited evidence of longer-term financial planning. Although funding allocations from the Scottish Government typically cover one-to-three-year spending review periods, that should not prevent public bodies from assessing their spending needs and options over a longer term, and more work is needed to develop and regularly review those long-term financial strategies to reflect priorities, risks and liabilities and their implications for affordability.

My report also emphasises the crucial role played by non-executive directors in ensuring that public bodies are well positioned to deliver quality services with less money. That involves approving budgets and holding people to account for how the money is spent and what outcomes are achieved. We found that public bodies need to improve the quality of information provided to non-executive directors and others involved in scrutiny to help them in that role.

The report makes three recommendations aimed at helping public bodies plan more effectively to deal with the challenges. First, we think that public bodies should implement an approach to budgeting that focuses on priorities and should link spending plans more closely to the outcomes that they want to achieve. Secondly, they need to develop a longer-term approach to financial planning that takes account of the risks and liabilities that they face and provides assurances about long-term affordability. Thirdly, they need to improve the information provided to support the scrutiny and challenge of spending decisions.

Effective scrutiny requires reliable, relevant and timely information. We have published sector-specific checklists that are aimed at non-executive directors to help promote good practice and scrutiny when budgets for 2015-16 and beyond

are being set. The checklists are designed to help non-executive directors with their important role of budget setting and overseeing financial plans and financial performance. They can also provide a basis for discussion in public bodies on budget setting, long-term financial planning and the information that is needed to support effective scrutiny of the public finances.

As always, my colleagues and I will be happy to answer any questions that the committee might have.

**The Convener:** Thank you for that.

The heading above paragraph 24 of your report says:

“Funding for central government bodies will increase in 2015/16”.

Will funding for local government also increase that year?

**Caroline Gardner:** I ask Angela Cullen to respond to that question.

**Angela Cullen (Audit Scotland):** In paragraphs 22 and 23 of the report, we talk about health and local government. Paragraph 23 says that the local government budget from the Government is due to decrease by 1 per cent in 2015-16, as will the budget for the health service.

**The Convener:** So funding for central Government bodies will increase, but funding for local government, which delivers the services, will decrease. Is that right?

**Angela Cullen:** That is right.

**The Convener:** So in some respects there will be more pressure on those who deliver the services than on those who plan and co-ordinate things at a central Government level. I do not know about other members' areas, but I certainly know that the two councils in my area are struggling to maintain services at their current level. I am not sure how much longer that situation can go on without its starting to impact on quality.

**Caroline Gardner:** Things are slightly more complicated than that, because it is not the case any more that all central Government bodies do not provide front-line services. For example, Police Scotland, the Scottish Police Authority and the Scottish Fire and Rescue Service are now classed as central Government bodies. Such bodies provide front-line services, some of which were previously provided by local government.

**The Convener:** But the funding for bodies for which central Government has responsibility will increase.

**Caroline Gardner:** That is in the breakdown of the 2015-16 budget proposals.

**The Convener:** And the funding for local government will decrease.

Paragraph 1 of the “Key messages” section of the report says:

“The Scottish budget has fallen nine per cent, in real terms”

between 2009-10 and 2014-15. What is the figure for local government?

**Caroline Gardner:** Gordon Smail might be able to put his finger on that figure. I am sorry to put him on the spot.

**Gordon Smail (Audit Scotland):** I do not think that I have that figure with me.

**Caroline Gardner:** We have published those figures before, convener, particularly in the Accounts Commission’s local government overview reports. We can brief members on that after the meeting, if that would help.

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

**Bruce Crawford (Stirling) (SNP):** This is an interesting area, and the convener has touched on one particular issue. Obviously, there are three big-spending areas—local government, central Government and health—and the question is how overall expenditure is apportioned among them. You might not have the figures for what happened before; if not, could you update us later on previous reductions in funding for central Government departments compared with what has previously happened to local government? I hope that that is a reasonable request, because the information would give us a fuller picture, but I am not sure whether you have it with you today.

**Caroline Gardner:** I think that we have published that in previous reports to which the report that we are discussing is a successor. Gordon Smail can give more detail about that.

**Gordon Smail:** Basically, we do not have that information with us. The point of the report and of giving those figures was to provide an overall context to how things are without getting into detail, but we certainly have that information and can get it to the committee.

**Bruce Crawford:** Paragraph 24 says:

“The overall DEL budget for this group of public bodies will increase by £147 million”.

Of that £147 million, £92 million will be for housing supply and £16 million will be for police and firefighters’ pensions. The pensions bit is almost inescapable, but obviously a decision has been taken to put extra money into housing.

**Caroline Gardner:** As you have said, Mr Crawford, that is what paragraph 24 says.

**Mary Scanlon (Highlands and Islands) (Con):**

In reading the report, I was looking for information on progress in meeting the challenges. The report contains plenty of advice, but, like the convener and Bruce Crawford, I did not get the information that I was seeking on which public bodies were meeting the challenge and which bodies we should be concerned about.

I have three fairly straightforward questions. First, although there has been a loss of 26,000 staff, 10,000 have gone to arm’s-length external organisations. I know that we have no responsibility for the service provided by ALEOs, but can you tell us anything more about those 10,000 members of staff? Were those ALEOs mainly providing local authority services? Do you feel that the local authority is ensuring good value for money and providing an effective, competent and appropriate public service through the ALEOs? Are there any checks and balances? There is no information about that in the report.

**Caroline Gardner:** I will ask Gordon Smail to respond on the specific issue of ALEOs. We know that the area has been of interest to the committee for a long time.

**Mary Scanlon:** Yes, I appreciate that.

**Caroline Gardner:** We will pick up that issue.

You are right that the report does not focus on individual bodies. We tend to do that either through the sector-specific reports on the NHS that the committee sees every year or through the Accounts Commission’s report on local government, on which the committee will be briefed in a couple of weeks’ time. In this report, we have tried to step back and look at the bigger picture, and we hope that such a view is of value to public bodies.

Gordon Smail will pick up the question about ALEOs.

**Gordon Smail:** As Caroline Gardner has suggested, in painting the context for the public finances, I think that it is worth while to refer to the staff reductions, because there are other such references throughout the report.

On your specific question about the 10,000 members of staff, the vast majority will be involved in council-related services such as home care for older people. The other big area is the leisure trusts that have been set up by councils to deliver leisure services. Those people are still involved in public services, but through a different delivery model.

The committee has taken an interest in that area before, and I should point out that in a couple of weeks’ time, we will be back here with the local government overview report, which goes into quite a lot of detail about ALEOs. It also highlights some

very important issues about government and how councils ensure not only that the money that they provide to ALEOs is used properly but that they get value for money from that spend. We want to ensure that, regardless of how the public pound is spent, there is value for money and that the money is used properly.

**Mary Scanlon:** So there will be a paper coming before the committee with further details about ALEOs.

**Gordon Smail:** We will be back here in two weeks' time to brief the committee on the Accounts Commission's latest annual overview report.

Audit Scotland is doing further work on ALEOs in the background. There is a lot of interest in ALEOs from the committee and other interested parties; they have become a large part of the local government landscape in recent years, and people have a number of issues and concerns in that respect. The ALEOs themselves operate in quite a demanding financial context, and it is important that we keep an eye on councils' funding of them.

**The Convener:** You mentioned home care and leisure services. I know that, in a number of local authorities, leisure services were put into ALEOs because there were tax benefits, particularly in relation to VAT. Is that the case with home care services too?

**Gordon Smail:** I do not know, off the top of my head. A range of factors will be taken into account, and one area that we are looking at is the decision-making process by which councils examine the available options. Options appraisal is an important part of budget-setting decisions and service delivery, and a panoply of things such as VAT, non-domestic rates, terms and conditions of employment and the use of assets should be taken into account in ensuring that the right decisions are made for services and the people who use them.

**Mary Scanlon:** My second question relates to exhibit 2 on page 13. In the past, the committee has received figures for the backlog maintenance requirement for the NHS. I appreciate that the maintenance falls into several categories—high priority, low priority and projects that are wished for in the future—but exhibit 2 gives a figure of £858 million. I think that, last time, the equivalent figure was more than £1 billion, but that figure does not mean a lot unless you are saying that a hospital has reached a stage at which there are health and safety issues and the maintenance is in the high priority category. I would find it helpful if you could give me a bit more background information on that, if you have it.

10:15

The second figure is probably one that I was not familiar with. In exhibit 2, you state that

"around a third of Scotland's local roads need repairs, with six per cent of these categorised as high priority."

Can you put a financial figure on that 6 per cent? I have to say that it does not really mean anything to me. What are we talking about in money terms if these are high-priority repairs? I am aware of recent figures for compensation that local authorities have paid out to motorists because of potholes and so on, and it would seem better to invest the money in roads instead of paying out compensation. Is there a figure for that 6 per cent?

**Caroline Gardner:** There are up-to-date figures for both the issues that you have highlighted. The figures in exhibit 2 provide some context and indicate the scale of the pressures that face the public finances as a whole.

On the NHS maintenance backlog, the updated figures will be in our report on NHS financial performance, which is due to be published in October. That report will contain the usual details, broken down by health board and category of need.

As for roads maintenance, 12 months ago—I think—the Accounts Commission published a report that included the same level of detail and which very much highlighted the importance of investing now to avoid expenditure on negligence and injury claims and to avoid the higher cost of putting the roads back to the state in which they need to be in future, if they continue to deteriorate.

**Mary Scanlon:** What does 6 per cent equate to with regards to the budget that is required to carry out that high-priority local road maintenance? How many millions of pounds is 6 per cent?

**Caroline Gardner:** We can come back to you with that figure after the meeting. It was published in the roads maintenance report.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I welcome the comment from the Auditor General in paragraph 1 of the report that

"Public bodies have coped well ... with budget reductions and have maintained services"

during what is a very challenging period. That is to their credit.

In exhibit 2, on page 13, under the heading "Financial", there is a comment that pay restraint

"is unlikely to be sustainable in the longer term."

Is that an estimate by Audit Scotland or is it based on feedback? Presumably, that information came from your local auditors and so on.



**Caroline Gardner:** I think that it is both, Mr Beattie. Our auditors have looked at the approaches that are being taken by the 67 bodies that we have looked at in detail and we have then applied our own judgment to that.

The sense is that pay freezes and recruitment freezes can be an important way of meeting the short-term shifts in available funding but, over time, we may end up with not enough staff to provide services and with staff in the wrong jobs because bodies do not control where vacancies arise and therefore where they are freezing recruitment.

Also, public sector salaries cannot be frozen relative to private sector salaries indefinitely. We have been through a number of years of pay freezes and we are seeing recruitment challenges in a number of particular professions. At some point, I suspect that there will need to be an adjustment, so the pay freeze is simply not sustainable. That is our audit judgment, based on the evidence that is available to us about the costs of public sector pay.

**Colin Beattie:** In paragraphs 34 and 35, you encourage local authorities and local bodies to have budgets

“covering a five to ten-year period”

and, in paragraph 31, you talk about

“a priority-based approach to budgeting”.

Is there not a danger in that? If we look at paragraph 25, we see that there are no indications beyond 2015-16 as to what the allocation might be for Scotland's budget, so the Scottish Government cannot give any steer as to what sort of budget will come to local government in that period. If local government uses a priority-based approach, it could easily end up making assumptions that might be quite dangerous in the future, because the funding might not be there to meet what local government considers its priorities are. Is it not the case that short-term rolling budgets are the order of the day because there is no alternative, however desirable a long-term budget might be?

**Caroline Gardner:** It is certainly the case that, the further ahead you do your financial planning, the more uncertainty there is. There is no question about that. The Scottish Government knows its own allocations only up to the financial year 2015-16. There are forecasts from different, more or less official, sources, which are contested, as we all know. However, that is not a reason for not considering the possible scenarios and what options might be open to public bodies—from the Government outwards—for managing their services against the background of the outcomes that they have committed themselves to achieving.

Clearly, there are particular challenges given the constitutional question that is open just now and the different proposals that are on the table from different parties in that debate. That uncertainty is another layer of difficulty in doing financial planning but, in some ways, it makes it all the more important to think about the big challenges that we face with an ageing population, providing health and social care to older people and making a step change in the environment for children growing up in Scotland through the early years priorities. It makes it all the more important to think hard about how the finances should be used differently by, as we say in the report, considering options for achieving the outcomes—rather than just providing the services—that would help us to get the best for the public money that is available.

It can also be a useful vehicle for engaging the public in different ways in the debates about the choices that will need to be made and the sorts of public services that we want to support Scotland after September, whatever the outcome of the referendum vote is.

**Colin Beattie:** Again, in paragraph 38, you talk about public bodies undertaking

“scenario planning as part of their long-term financial strategies.”

That means making all sorts of different assumptions about possible income. There is a multiplicity of choices and, at the end of the day, if a public body has a multiplicity of choices, on which scenario will it base its future?

**Caroline Gardner:** The bodies that do that well pick a limited number of scenarios based on the amount of money that they expect to have available to spend and on features in the environment such as the change in the population and commitments that might be made for particular policy areas, and then work through a range of what might happen in each of those scenarios in which the range of uncertainty gets bigger as time gets further out. Those exercises are not the same as setting budgets, but they are useful ways of informing this year's budget setting and ensuring that the decisions that are taken now do not make it more difficult to do what is required in the longer term rather than paving the way for the sorts of changes that are likely to be needed.

**Colin Beattie:** I am just a little bit concerned at the number of options that you are opening up to councils and other public bodies. You talk about zero-based budgeting, priority-based budgeting and scenario planning.

Some of the things that you have touched on in the report can be validly quantified—we can say that there will be a population increase because of X, Y and Z; we can say that the number of elderly people will increase and, therefore, that there will

be pressures on that part of the budget—but the big uncertainty is the central budget. Nobody knows what that is going to be, except that it seems to be getting cut every year and there is the prospect that that trend might continue beyond the next general election. I wonder about the validity of a long-term financial strategy that is based on such a big uncertainty about the major part of the funding.

**Caroline Gardner:** I will say two things in response. The first is that we are not promoting any single tool in the report. We say that budgeting should be linked to priorities and outcomes. We do not promote zero-based budgeting or any of the other more formal approaches that have been piloted and promoted over the years. It is much more about bodies asking how, if they want to achieve a certain outcome, they would allocate their money to best increase their chances of achieving it.

Secondly, we fully recognise all the uncertainty that exists in the public finances, especially in Scotland at the moment but, in our view, the benefits of doing longer-term planning while recognising the uncertainty outweigh the risks of simply saying that it is all too hard and we cannot think about it at this stage. There has to be an acknowledgement of the uncertainty and of a number of possible scenarios for the future, but thinking about what that might mean for public services in an individual body and across the range of public bodies in Scotland would have real benefits.

**Colin Beattie:** Is there not a danger that the local body might do a long-term plan that takes into account its priorities and perceived changes in its community and make an assumption that the money might be available to fulfil it?

**Caroline Gardner:** We would not regard that as good long-term financial planning. As I have said, some forecasts are available heading up to 2018-19 at the moment. It is possible to do the planning on the basis of demographic changes further into the future than that. Those forecasts almost certainly will not be right, but they really help to inform decision making now about where to invest and where to spend.

**Colin Beattie:** It is a difficult subject at the moment.

**Tavish Scott (Shetland Islands) (LD):** In the key messages, you say:

“There is limited evidence of longer-term financial planning.”

What is that limited evidence? Are you able to draw that out for the committee?

**Caroline Gardner:** Yes. I will give you one example that we have reported on here before,

which is about long-term financial planning in the health service. At the moment, all the health boards are required to have medium-term financial plans, which are generally looking three years out. When we have looked at them in detail, we have found that most of those plans are detailed only for the first year and have become much more high level after that. From three years on, not much is publicly available. Auditors have not seen much evidence of robust planning for the sorts of challenges that Mr Beattie has been describing going out from there.

**Tavish Scott:** From Audit Scotland's findings, would that example broadly be the case throughout the public sector?

**Caroline Gardner:** I will ask Gordon Smail to talk a bit more about the nuance of what we found across those 67 bodies.

**Gordon Smail:** That is the overall picture. As we say, there is limited evidence. Going back to the previous question, I note that the fact that some organisations are making headway on this provides enough confidence that it can be done, albeit taking a number of factors into account. Across the sectors, though, there is pretty limited evidence of longer-term planning beyond the five to 10-year timescale.

**Tavish Scott:** Auditor General, you said quite intriguingly earlier that the constitutional question was part of that uncertainty. Will you expand on that?

**Caroline Gardner:** I am not sure that there is much that I can say that is not very present to all of you as elected representatives. We know first of all that the Scotland Act 2012 will bring more variability in Scotland's public finances with the tax-raising powers. The referendum question could give more flexibility again, both on tax and spend and, potentially, on economic measures. We are now seeing a range of other proposals coming through from the other parties, which would all have effects on both the spending and the income side of the equation. None of us knows what the effect of that would be.

**Tavish Scott:** So you can hardly blame quangos in the public sector for being pretty cautious until this thing in September is decided.

**Caroline Gardner:** I think that caution is entirely appropriate. We are certainly not saying that all of these long-term financial plans should be in the public domain, but the process of doing the planning has value and can help to engage the public in some of the difficult choices that we face not just to meet the financial challenges but to produce better public services, which may involve losses for some people of services that they value.

**Tavish Scott:** When I met a Scottish quango boss last week, he said that no financial planning was going on in his organisation because he did not know what it would be doing after September. You can hardly blame him for that. I will not name him because that would be him out of a job tomorrow. That is the reality for the state at the moment.

**Caroline Gardner:** I would disagree that no financial planning can happen. It seems to me that the things that we are likely to see over the next few years are moving within a range of possibilities, as we have discussed. However, the basic services that most public bodies provide will continue to be needed and the challenges that face them will continue, whatever happens. I think that there is value in the process of thinking now about what the scenarios might be and what options there are for meeting them.

**Tavish Scott:** But, according to your evidence, there is very little evidence that that is happening.

**Caroline Gardner:** That is what we have found so far.

**Tavish Scott:** Exactly. I want to ask two specific questions. The first is on the first bullet point in paragraph 3 of the report, in which Audit Scotland states:

“Vacancy rates for NHS staff were increasing and boards were spending more on agency staff and on private sector providers.”

I personally know that that is true, but I wonder whether there is any detail that you could provide for the committee. That is quite a significant finding.

**Caroline Gardner:** We have previously reported on staffing levels, vacancy rates and other staffing factors in the NHS in our annual report on the financial performance of the NHS. The next report in that series, which is due for publication in October, will provide an update on the latest position.

**Tavish Scott:** I am grateful for that. Does that paragraph point to an increase in the use of private sector providers? That is how I would read that sentence.

**Caroline Gardner:** It reflects what was published in the report on NHS financial performance last autumn. It is not an update on that. We are still in the process of collating the most up-to-date information.

**Tavish Scott:** No, sure. It is the overview.

My second question is about paragraph 20 in relation to the non-profit-distribution model. The second bullet point states that the effect of such models

“is to create longer-term financial commitments and to reduce flexibility in how future revenue budgets can be used.”

When the Accounts Commission reports to us in a couple of weeks’ time, will it pick up that particular point in respect of the finding that I have just quoted?

10:30

**Gordon Smail:** I do not think that there will be very much more detail, but the point about having made decisions still stands. It ties back to the conversation about longer-term planning and the implications of taking decisions today, looking ahead to budgets and the lack of flexibility. The basic point is reflected in there. We will not include any more details.

We drilled into the local government side of things in the overview, and there is reference there to the implications for council budgets as part of the report into expense.

**Tavish Scott:** A huge commitment is being put on local government under the hubco model—which is the new name for something that has been going on for a long time—which I have seen in my local authority area. When are we going to see some figures on that and on how much profit some organisations are making? I have seen the management fees that are being levied on local government for the services.

**Caroline Gardner:** You will recall from the reports that we produced last autumn on developing financial reporting in Scotland and infrastructure investment that transparency about the revenue consequences of capital investment and understanding financial sustainability are high priorities that we recommended that both the Government and public bodies should focus on. You will get updates on that in various ways and part of it will be included later this year in our follow-up report on developing financial reporting.

It is worth saying, as we have said before, that financing capital investment through revenue methods is entirely appropriate in some instances. We all do it when we buy a house on a mortgage. The questions of the transparency, affordability and sustainability are important—

**Tavish Scott:** I totally agree with the principle of that, but there is no transparency at the moment. I find out more on this from talking to my local authority than I do from Parliament. I just do not get answers on this in Parliament. When exactly will we get the transparency?

**Caroline Gardner:** The follow-up that we are due to publish on the Scottish Government’s financial reporting for the public sector as a whole is due before the end of this calendar year. The

local government aspect of that will come through the Accounts Commission's work programme—

**Tavish Scott:** Okay. Many thanks.

**Colin Keir (Edinburgh Western) (SNP):** Can I ask a supplementary?

**The Convener:** Before you come in, I will ask about the NPD model. What is the typical length of contract or project for which money will be paid to a private developer?

**Caroline Gardner:** There is a good deal of variation in length among different types of projects. They tend to be long-term commitments, because that is how you get investment and affordability. I do not want to make generalisations about it; you will see more in our reporting on investment.

**The Convener:** You are saying that typically the projects are longer-term. Are you talking about 10 or 15 years, or are you talking about 20 to 25 years?

**Caroline Gardner:** Contracts can be for 10 years through to 25 or 30 years in some cases, and that variation can be entirely appropriate.

**The Convener:** The project is built and for the following 25 to 30 years money will be paid to the private developer to run and maintain the facility. Is that correct?

**Caroline Gardner:** In broad terms, yes. In practice, the details vary by project. Most projects now focus on construction rather than on maintenance and service, which is how some of the earlier contracts worked.

**The Convener:** It seems to be pretty familiar, from the way that you are describing it.

**Colin Keir:** I would like clarification on one of Tavish Scott's questions on agency staff in the NHS. Am I correct that the report said that, within the overall budget, a very low amount was spent on agency staff, compared to what was spent in other areas in the United Kingdom?

**Caroline Gardner:** I genuinely do not recall what we said about comparisons with the rest of the UK. Given how sensitive that is at the moment, I do not want to risk misleading the committee. We can certainly report back to you with the figures that we had in our last NHS financial performance report, including any comparisons that we may have included.

**Colin Keir:** I think that the amount was not a huge amount of money in terms of the overall budget that is spent by the NHS Scotland.

**Caroline Gardner:** The spend on agency staff is not a large proportion of the total budget or the staffing budget. We focus on it because agency

staff in particular can bring risks in terms of patient safety and the quality of care, if they are not properly familiar with the surroundings in which they are working, and with the hospital's processes for patient quality and safety. They are generally recognised as being a less satisfactory alternative to bank staff or permanent staff.

**Ken Macintosh (Eastwood) (Lab):** I want to question the Auditor General on a number of issues. My first question is on efficiency savings, which we have talked about previously. Local government and others have used efficiency savings as a mechanism to address budget cuts. Efficiency savings are not really addressed in your report. Is that because they are not happening, they are not successful or just that you do not measure them?

**Caroline Gardner:** No. As Gordon Smail said, we are trying to do something slightly different in the report, which is to look at underlying preparedness and the progress that public bodies are making in meeting what looks likely to be, whatever the circumstances, continuing pressure on public finances.

A lot of efficiency savings have been made. Some of the savings on staffing fall into that category, but those will not be sustainable in the long term if we are to maintain public services at the level to which the Scottish Government is committed, and if we are to meet the challenges that we know are coming with an ageing population and other pressures to which we have referred. Therefore, our focus in the report is a bit different.

**Ken Macintosh:** Should efficiency savings still be at the heart of public bodies' preparations?

**Caroline Gardner:** Efficiency savings are still very important. Every public body should be doing what it can to identify where it can maintain service levels for less money, or how generally to make better use of the money that it spends. Audit Scotland and many other public bodies are doing that. However, that is not sufficient on its own: we need a more fundamental look at what outcomes public bodies are trying to achieve and what resources are likely to be available, and we need to do the longer-term financial planning on how to square that circle. Efficiency savings are still part of the mix; they just are not enough.

**Ken Macintosh:** It strikes me that most of the savings that you identify seem to come from staff reductions or pay restrictions. First of all, is that fair? Secondly, paragraph 3 of the report, at bullet point 4 says:

"Colleges faced an 11 per cent reduction in revenue grant allocation ... They aimed to reduce staff numbers"

and bullet point 3 says:

“public bodies were likely to need to make further workforce changes”.

Are we to expect further public sector workforce cuts?

**Caroline Gardner:** That is a very difficult question to answer. We have focused on the workforce in the report and in our work on workforce planning. There is no question: staffing accounts for a large part of public sector budgets. Staff are also central to changing how services are provided.

We have collectively produced work in the past on topics including procurement—the Accounts Commission is doing work on that at the moment. For example, work on roads maintenance considered the scope for making savings in terms of procurement. We are not ignoring such issues, but because staffing is such a large part of the budget and a key part of how most public services are provided, it has been, and will continue to be, a focus for rethinking how public services can be provided to achieve the outcomes that are the heart of the Government’s national performance framework.

**Ken Macintosh:** You have identified that more than 26,000 staff have been lost and a further 10,000 have been transferred to ALEOs. Would it not help to plan for the further cuts that are coming?

**Caroline Gardner:** The 26,600 figure includes the 10,000 staff who were transferred to ALEOs.

At the heart of our recommendations in the report is that although continuing to make short-term annual budget cuts has been the focus so far, we really need to make longer-term financial plans—while recognising the uncertainty that Mr Beattie rightly highlighted—and to think about the options for achieving outcomes and providing the needed services. That means taking a step back from the annual planning cycle.

**Ken Macintosh:** Finally, I turn to an issue that Mary Scanlon and other colleagues have raised. As well as the Scottish Government’s increasing reliance on the private finance initiative to defer costs, there is an issue with the rising maintenance backlog.

In 2011, your predecessor, on the issue of the backlog of maintenance and repairs, said:

“this is not just an accounting issue that we keep coming back to. In effect, what we are doing is using assets and depreciating their value. Quite frankly, some of them are getting past their usable condition and we are simply passing the problem on to future generations. It is an intergenerational transfer issue. In the past, we have talked about the need to spend about £2.25 billion to eliminate the defects on Scottish roads; about the costs of removing the backlog of maintenance of council-owned property assets, which amount to £1.4 billion; and about the NHS estate,

which needs more than £500 million.”—[*Official Report, Public Audit Committee*, 7 September 2011; c 95.]

The last of those figures—the £500 million for the national health service estate—has now risen to £858 million, according to your figures. Am I right in thinking that the backlog is rising? Are we tackling it, or are we just storing up problems for future generations?

**Caroline Gardner:** I will answer in general terms first, before I talk about the specific figures, on which Gordon Smail and Angela Cullen might want to chip in.

In general terms, one of the reasons why we focus on the need to invest in and maintain public sector assets as being one of the pressures is the perennial problem that, when finances are tight, it can be attractive to cut back on maintenance to keep front-line services running. That can create short-term breathing space, but it is not a longer-term solution. We need to ensure that we are investing in the assets so that they remain fit for purpose, and that we are investing in new assets for new types of services. Later this morning, the committee will talk about reshaping care for older people. That might well involve less reliance on beds in acute hospitals and more reliance on either different types of assets or different types of services. Again, we think that it is very important to do the longer-term planning.

I do not have in front of me the specific figures that Ken Macintosh quoted. We report NHS figures annually in the NHS financial performance report; I think that the latest figures show a slight reduction. The Accounts Commission has been focusing on the roads maintenance budget, so we may be able to give you some more information about that. However, the figures tend to be based on periodic surveys, rather than on information that is readily reported in the accounts. That is another reason why it is important that there is transparency and clarity about what the need is.

Gordon Smail might want to add to that.

**Gordon Smail:** I do not, other than to say that in bringing together the report and giving the context for public finances, we have tried to use the most up-to-date public information. For example, with regard to assets, the maintenance backlog figure of £858 million for the NHS comes from the “Annual State of NHSScotland Assets and Facilities Report for 2013”, which was published in December 2013.

As I said earlier, we do not have the roads figure available, but we will be able to provide it, based on the last survey that was carried out.

It is worth reflecting on the overall context. Maintenance is just one of a number of things that are important in terms of going ahead, and

intergenerational issues around that. There are other intergenerational issues concerning decisions about how to fund assets, rather than just how to repair them.

**Ken Macintosh:** The figures that I quoted came from evidence that the Auditor General gave to this committee in September 2011. It would be useful to know whether the figures now are worse or better than they were then. We all want to know whether the backlog across the public estate is deepening, because it is something that we all wish to address.

**Bruce Crawford:** Your report is certainly a stark reminder of the challenges that face the public sector in Scotland, with a 9 per cent real-terms budget reduction in 2014-15, and another reduction of £3.2 billion, if projections are correct, from 2016-17 to 2018-19.

We have already discussed the fact that staff costs usually make up about 75 per cent of the cost of services in the public sector, which means that that is an area that would have to be looked at, however regrettable that might be. We have heard from others this morning about maintenance backlogs, public buildings, roads, the creation of ALEOs, grant reductions and the closure of various facilities. Your report says that the public sector is facing up to that challenge pretty well. The worrying question is this: where do we go now, in terms of the scale of the reduction that will be required between now and 2018-19? We can go only so far on staffing. At some point, we will get to a point at which, I imagine, organisations will have to say that they are no longer going to undertake a particular activity, otherwise they will always be shaving their services. Where can organisations go next, given the scale of the challenge?

Could you also give me your view on how the Scottish Government's preventative approach might be able to address some of the challenges that we face?

10:45

**Caroline Gardner:** There are probably two aspects that I would pull out. First, we try to say clearly in the report that thinking quite rigorously about the priorities for each public body and for public services as a whole is the key to squaring that circle, and to ensuring that we are making the right choices now, for the longer term. That may mean tough choices about ceasing to provide some services, rather than repeatedly cutting them at the margins, and thinking quite radically about different ways of having services provided, perhaps linked to the Community Empowerment (Scotland) Bill or to community planning and other policy drivers. That does not mean that the

choices would be less tough, but there would be a wider range of options available.

The second point that I would make is linked to the Government's outcomes approach and the national performance framework. In broad terms, I think that that is a positive move. To focus on what you want to achieve rather than on public services as an end in themselves must be a better way of guiding long-term investment decisions, but what we are seeing is that financial planning in local public bodies is not yet long term enough to make the changes that are needed in some areas.

The classic example is around reshaping care for older people. We know that practice varies a great deal across Scotland, and that many older people are still receiving care that is not as good as it should be, and is more expensive than good alternatives to admission to acute hospitals that would help them to stay at home, and to live good and rewarding independent lives for as long as possible.

Individual bodies, and the partners with which they need to work, stepping back and thinking about a preventative approach, in all the areas where that has been a priority, needs to be underpinned by longer-term financial planning. It is not possible to move overnight away from reliance on acute hospital beds to reliance on a range of community-based services. The health service probably cannot do that on its own—it needs to work with social care, housing, the voluntary sector and a range of others. To do that, NHS boards need to be thinking about what resources they are likely to have, what the number of older people is likely to be and what the pattern of care looks like in their area, so that they can start to invest now to make that bigger change over the years ahead.

**Bruce Crawford:** What have you been able to find out about areas where local government has been a bit more imaginative in delivering joint services with neighbouring authorities, and about potential savings being delivered by bringing services together on a scale that could help to reduce costs while keeping service levels up, rather than services being lost? In my area, Stirling Council works closely with Clackmannanshire Council on social care, and from what I can see, that is working effectively. What have you seen local authorities do that could help to drive that change? If I were a local government manager looking at the scale of cuts that are being suggested by the UK Government up to 2018-19, I would be scratching my head and wondering where to go next, so joint service agreements might be one way of driving change.

**Caroline Gardner:** Local government does not sit within my responsibilities as Auditor General. Gordon Smail is our expert on local government

for the Accounts Commission, so I shall ask him to pick up that point.

**Gordon Smail:** This is a big topic and we could probably spend a long time talking about it, but I shall highlight a few things. We have certainly been looking at the extent to which providing shared services has had an impact as a way of delivering services in different ways and of creating efficiencies. Over the years, as we have brought overview reports to the Public Audit Committee, there has been a fairly constant story about a lot of time and money being invested in large-scale projects without much evidence of success arising from them. In fact, often the smaller scale, under-the-radar type things on which councils work together have had most success.

Part of the Accounts Commission's current work with the Auditor General relates to community planning partnerships. We have identified some interesting things as part of those audits, particularly in relation to how local councils, the NHS and colleges are looking at new ways of working. Examples include new ways for the council and the local college to take young people out of the school environment and into the college environment, which is making a huge difference to those young people's overall attainment and education. The benefit of a joined-up approach is that organisations come together to look for different ways of delivering services that will have better outcomes for the people in their communities.

The prevention agenda is another example of where more work has been done. The councils and the NHS have considered the early years, and how they can work together in areas such as health improvement, in order to encourage young families to take a different approach to bringing up children.

There are many examples. We are not convinced that the big set-piece shared services necessarily work; there is not a lot of evidence to suggest that they do. I encourage closer consideration of smaller-scale things, particularly things that are happening in the boundaries between community planning partners, as they look to work together.

To return to the report, I encourage consideration of how budgets are used locally and the overall money that is available in a community planning area, rather than looking at individual budgets—although I do not underestimate the challenges in achieving that. We have talked about public money, but the resources element is beyond that. How can public sector bodies, through working together, make better use of assets including buildings and, indeed, staff?

There is a lot happening, but there is a long way to go. That is why we are, as part of the process of linking everything together, encouraging people to look more at outcomes and at how partners can work together to achieve a shared view of outcomes for the area. We are taking almost a leap of faith to start to have a rounder conversation about the resources that are available for providing services in different ways.

**Bruce Crawford:** That is useful, but it seems to me—from experience—that one of the key barriers to that level of change is people being unprepared to surrender budgets to other organisations or to share budgets. How can we get organisations to recognise that they will, if we are going to get the step change that is required, have to surrender some of their budget line to a new jointly formed organisation or to a different organisation, in order to deliver services? That seems to be where the biggest blockage is in getting partnerships to work.

**Caroline Gardner:** As Gordon Smail said, that is right at the heart of the work that we have been doing on auditing community planning partnerships. We reported on that at the back end of last year. We found that lots of work has been done on the processes and structures for community planning, but there is not much evidence so far of there having been, by focusing on outcomes, any real shift in where the money is spent, who spends it, and what it is spent on. It is important first of all to build trust, which we hope the process and structures will have built or worked towards, and to be much more transparent across the partners about what money is spent, what it currently achieves, and what the challenges are for the future.

We have five more community planning partnership audits under way, which we will report on at the back end of 2014. We hope that we will then have some evidence of where things are working. However, as Bruce Crawford said, that approach is difficult for organisations, and it will be very important, given the continuing challenges.

**Gordon Smail:** I emphasise that we acknowledge that this is not easy to do. The issue has been given quite a lot more weight. Back in September last year, the Convention of Scottish Local Authorities and the Government signed the agreement on joint working in community planning and resourcing. We know from community planning work that that is forcing the issue locally in some ways, but I do not underestimate the challenges.

I am thinking of what I was recently involved in: councils set budgets based on departments and services, whereas health boards work based on geographic areas—for example, the Forth valley. However, perhaps there is now an imperative that did not exist in the past.

**Bruce Crawford:** Yes. I wish that the imperative had moved a bit more quickly. I remember—the convener will remember this, as well—when the pathfinder authorities for partnership were set up in the 1990s. It was recognised then that the big challenge was in getting people to shift their budgets. The situation has not improved or moved on as much as I would have liked.

The report tells us that, from 2009-10 to 2014-15, there has been a 29 per cent reduction in capital. There are obvious consequences for the economy from what we are able to spend on construction of public buildings or on public works. We do not have a projection, as we have for the DEL budget, on what further reductions in capital might come. Is that information available?

**Caroline Gardner:** Gordon Smail might know what we have. Can we check that and come back to the committee, Mr Crawford? I do not want to mislead you. Different levels of detail are available for the different lengths of projections. We will check that and come back to the committee, if that would be helpful.

**Bruce Crawford:** That information would be useful and would set those reductions in context alongside the DEL budget, given the scale of the reduction in that budget.

I want to go back to Colin Beattie's points about long-term planning with regard to the projections that you have usefully provided to us. I fully recognise that a local authority must be involved in longer-term financial planning. However, I have some concern that, if a local authority used the projections to make plans, it might take irrevocable decisions to reduce a service in a particular area on the basis of projections of spend that it was not very sure was going to happen. I think that Colin Beattie was talking about achieving a balance with regard to irrevocable decisions that are made early on that can cause significant harm further down the line.

**Caroline Gardner:** The challenge is that there is no risk-free option. There is uncertainty no matter whose forecast you believe or the length of the period that you focus on. You referred to the risk of cutting services unnecessarily, and there is a risk of that. Equally, there is a risk that recruiting staff or investing in assets will have longer-term consequences. Making staff redundant has a cost as well as being very bad for the individuals affected, and almost any investment in buildings and services will have things that are locked in for the long term. We are focused not on pretending that there is certainty where there is none, but on encouraging people to think about what is most likely to happen and what options are available both within their organisations and through thinking more widely with their partners, including

their local community and voluntary sector partners.

**Bruce Crawford:** Thank you. I thank the convener for his patience.

**The Convener:** Mr Smail, you mentioned an example of good practice involving school pupils going into a college. Where is that happening?

**Gordon Smail:** It is in Falkirk. We published the "Falkirk Community Planning Partnership" audit report at the end of May, so it is a public document. We highlighted the good practice to which you refer as an example of how partners can work together to tackle problems or look at new ways of doing things.

**Willie Coffey (Kilmarnock and Irvine Valley) (SNP):** Auditor General, you remind us in your report that the Scottish budget has been cut by about £3 billion to date. For me, the key paragraph in your report is paragraph 25, which tells us that, if things stay the same after "this thing in September" that Tavish Scott referred to, Scotland can look forward to a further budget cut of potentially £3.2 billion. Is that correct?

**Caroline Gardner:** The figures in the report extrapolate the Office for Budget Responsibility's forecast to 2018-19 for the Scottish budget for the three years beyond 2015-16.

**Willie Coffey:** If things stay the same after the thing in September, we could be looking at a further £3.2 billion of cuts to the Scottish budget. That is pretty big writing on anybody's wall. Given that potential scenario, would you expect public sector managers, wherever they are in Scotland, to be sitting on their hands and talking about uncertainty? Should they not be planning for that possible eventuality?

**Caroline Gardner:** The key words in your question were "could be". We are talking about forecasts, and we know that they are only that—they are not descriptions of the future; they are an investigation of the future. We also know that, over and above those figures, there is the uncertainty—to which we make further reference—of the outcome of the referendum, which will be either independence or the potential for further devolution. In addition, implementation of the Scotland Act 2012 will start next April and will give some tax-raising powers to the Parliament.

In general terms, though, I agree with you absolutely. The reason for making our recommendation is that we think that all public sector leaders and managers should be thinking about what might happen not just to the budget but to demand for their services and about different ways of meeting that demand and achieving the outcomes that we, as a country, are committed to.



**Willie Coffey:** Bruce Crawford led us into discussion of good practice around Scotland, and you have cited a couple of examples in Edinburgh and Fife, where some good work has been taking place and savings have been achieved. I can add to that an example from my own local authority. East Ayrshire Council has merged its roads and transportation service department with South Ayrshire Council's and hopes to save about £8 million or so over 10 years. That work could have happened anyway or might have been driven by the cuts agenda. We could argue either side of that; nevertheless, that is taking place and seems to be paying early dividends for us in Ayrshire.

Are you finding that local authorities are embracing the checklist to which you referred in your report and using it to achieve such partnership relationships and the financial gains that we will have to make over the coming years?

11:00

**Caroline Gardner:** One of the great things about our work is that we come across examples of good practice and real improvement all over the place in everything that we do, and we try to reflect that in our work.

We have made the move, to which you referred, of producing more guidance, checklists and other things for all public bodies—not only councils—to use. It is probably too early to say whether the ones that accompanied the report are being used yet, but our local auditors follow that up and, as part of Audit Scotland's thinking about the future direction of public audit, we recognise the scope for us to do more to help people to learn from the good practice that we identify. We take that very seriously.

Gordon Smail may be able to tell you a bit more about the way in which previous checklists have been used.

**Gordon Smail:** We published the report just last Thursday, and the checklists were published alongside it. They are on our website if you want to look at them, Mr Coffey. We had a long internal discussion about what we should call them, as we do not want people simply to go round and tick yes or no.

We have put a wee bit of context in front of the checklists. We want councillors and non-executive directors to have a conversation within their organisations so that it is about not just running down the checklist and asking what their own responsibilities are, but what is happening in the organisations.

We are encouraging people who have a key role to ask themselves the questions and to have the discussions internally, and we are putting the onus

on them to go and find out the answers if they do not know them. For example, in the council checklist we are again flagging the key role that the proper officer for finance—the section 95 officer—has in councils. We are trying to encourage dialogue so that it is about not just answering yes or no, but people who have a key role asking what evidence they have and where they should go if they need more information.

Alongside that are the usual comments that we make—they are absolutely vital in such areas, which are quite complex—about considering the training that is available. To take that a stage further, it is about not just the availability but the take-up of the training. Quite a lot of information and training is available; the issue is whether councillors and non-executive directors can find the time in their busy lives to take up that training so that they are better informed to ask the right questions.

**Willie Coffey:** I recall being a local councillor not too many years ago and being part of the scrutiny process in which our own staff examined the local authority. That experience is really enriching for local councillors and officials to engage in.

I always hope that, through your reports, we will see some feedback to the Public Audit Committee of how local authorities are, or are not, adopting your recommendations. One of the convener's predecessors, George Foulkes, always said that the reports were great but asked what happened next and how we would get some feedback in the future about how your recommendations were being implemented. In any future reports that come to us on the subject, I would love to see your assessment of how local authorities are taking up your recommendations.

**Caroline Gardner:** I will feed that back to the Accounts Commission, Mr Coffey. I know that it takes the matter seriously as well. We follow up all our audit recommendations through the local audit process. We will have a chat about whether that can be made more transparent to you.

**Willie Coffey:** Thank you.

**James Dornan (Glasgow Cathcart) (SNP):** Let us go back to the public sector workforce reduction. We talk about the figure for that being 26,000 staff, and it has been accepted that 10,000 of those are people who have been transferred to ALEOs. Does that not mean that the reduction in the workforce that deals with what were public sector tasks is more like a 4.5 per cent cut than a 7 per cent cut? I understand why you have to report it as it is, but should there not be something in the report that puts it in context?

For example, the report suggests that there has been a 7 per cent cut in the workforce that deals

with the issues that the local authority families deal with. However, in many cases, as has been mentioned, leisure centres and home care are still dealt with but by a different part of the family. Is there some way in which we can report that clearly?

**Caroline Gardner:** We have made that clear in paragraph 26. We have included both the figure of 26,600 and the 10,000 people within that who were transferred to ALEOs of various sorts. We also say in the final couple of sentences of that paragraph that those staff still provide public services and that it is likely that there will be some cost to the public purse of their doing that in different ways.

One of the challenges that the committee has focused on a number of times is the fact that, for a range of reasons, what happens in ALEOs is not as transparent as what happens in the rest of public services. It is likely that there will be different terms and conditions as well as different ways of working, and we do not have good information on change over time from the point of transfer. We try to be as clear as we can be about what has happened, but there is a lack of information available to us about what happens in ALEOs within the public bodies that we audit directly. Is that a fair comment, Gordon?

**Gordon Smail:** It is. As I said, we take a close interest in that area and the Accounts Commission, which oversees local government work, has a keen interest in it and is challenging Audit Scotland to look more closely at it. We are doing some work on that area as we speak.

**James Dornan:** I completely understand the difficulty that you have in reporting on that area and the lack of transparency around it.

I have another couple of small matters to raise. Willie Coffey has touched on one of them. You talked about training for councillors who act as non-executive directors. Is there any best practice in that? Are any councils doing a particularly good job of ensuring that councillors are prepared when they take on such roles? Like Willie Coffey and other members, I was previously a councillor and I know of councillors—including myself—who went on to committees without having the full range of knowledge and experience that is probably appropriate for being on a scrutiny committee.

**Caroline Gardner:** I am conscious that, in a couple of weeks' time, the committee will take evidence from the Accounts Commission on its local government overview report. One of the Accounts Commission's continuing interests has been in exactly that question of what training is provided for councillors and what is taken up, not only on financial management and scrutiny but on a range of other important aspects of their role. If

you are content, I would prefer to leave that question for the Accounts Commission to answer instead of trying to step in myself.

**James Dornan:** That makes sense.

Paragraph 48 on page 21 of the report refers to the importance of benchmarking and states that benchmarking

"is common across the Scottish public sector. Auditors for both central government and NHS bodies reported there were few examples of measurable benefits derived from benchmarking activities."

However, you found some examples in local government. Are there particular reasons for that? If there are, can we learn any lessons and share those with bodies that are finding the process more difficult?

**Caroline Gardner:** I will say two things and then invite Angela Cullen—if she would welcome doing so—or Gordon Smail to comment. First, we know that, in local government, COSLA and the Society of Local Authority Chief Executives and Senior Managers have put a lot of effort into their benchmarking initiative. After a number of years during which the Accounts Commission said much the same thing—that there was lots of activity but not much evidence of benchmarking being used in practice to change the way in which services are provided—the Accounts Commission's sense now is that the position has really shifted.

Secondly, it can sometimes be difficult for councils and other public bodies to demonstrate what has changed as a result of benchmarking even if a lot of activity is going on. In a sense, that is related to the question that Mr Macintosh asked about efficiency savings. We are often told that people have achieved efficiencies, but when we ask them to demonstrate how that has been done the audit trail is not always as clear as we would like it to be.

Does Gordon Smail want to add anything on the local government front?

**Gordon Smail:** There is not much more to say. We are pleased to see that the framework that Caroline Gardner mentioned is up and running. It is pretty much established and is there for councils to use. Our challenge is to use that material more in the context that we are talking about today, as part of the overall information that is available to councillors when they set budgets. In the report, we make quite a few references to options appraisal, and it is important that benchmarking information is part of the overall package that is available to elected members when they have to make difficult decisions and look at the options that have been presented to them. That enables them to ask how their council compares with other councils and why their unit cost for a service may be higher or lower than in a comparable local

authority. The information should act like a can opener, allowing people to ask informed questions about how good, bad or indifferent services are in terms of their quality and in relation to the inputs around costs. That is the real benefit.

In summary, councils have to start to apply the framework that already exists in local government both in the setting of budgets and in the scrutiny of outturns—what is achieved with public money.

**James Dornan:** Does Angela Cullen want to come in?

**Angela Cullen:** No. I have nothing to add to what has been said.

**James Dornan:** Auditor General, you said that local authorities and others are struggling to highlight the benefits that benchmarks give them. Although they say that the benchmarks are working, they cannot prove the benefits. If that is the case, what is the point of benchmarks?

**Caroline Gardner:** I was trying to say what the report says in the middle of paragraph 48—that auditors are not finding much evidence of demonstrable benefits coming from benchmarking. I agree whole-heartedly with what Gordon Smail said about the information being a really important tool both for the managers who are responsible for services and for the councillors or the non-executive directors who are responsible for overseeing performance and for making longer-term decisions about where to spend public money.

It is great information for answering questions such as, “Why are we more expensive than other councils and other health boards in this area?” People can drill down and ask, “Is it because our costs are higher or because we are doing more of it?” They can think about how it might help them to do things better in the future. It is really powerful information. At the moment, we are not seeing good evidence of the audit trail being used in that way to produce measurable savings or improvements in quality.

**James Dornan:** Let me take you back to the first question that I asked. I accept that COSLA and SOLACE have done a lot of work on benchmarking, but why are other departments not achieving the success that local authorities seem to be achieving?

**Caroline Gardner:** The investment that local government made was significant and it took a long time to get things off the ground. You will hear more about that from the Accounts Commission. The people in local government who are involved in benchmarking would say that a real investment was needed to start having that impact.

We have not seen the same focus in the other sectors, although some limited benchmarking has gone on for particular services such as central services. What we are focusing on here, though, is how that benchmarking is being used to make real changes and improve efficiency or quality.

**James Dornan:** Could it have anything to do with the size of the organisations? Is it because local authorities are smaller and more manageable?

**Caroline Gardner:** I am not sure that we have any evidence to suggest that that is the case. There are some very big local authorities in Scotland as well as some very small ones, and the same is true of health boards, which are the obvious comparator.

**James Dornan:** Okay. Thank you.

**The Convener:** A question was raised about the workforce. You have looked at the reductions in the local authority workforce, and you said that almost 10,000 staff transferred across to ALEOs. Have you looked at what has happened to staffing levels in ALEOs over a number of years? Is there any guarantee that the same number are still employed as were transferred across, or have there been reductions there as well?

**Caroline Gardner:** We do not know that at the moment. As I have said, one of the challenges with ALEOs is that what happens in them is not as transparent as what happens in public bodies. Angela Cullen can tell you more about our current work on ALEOs and how much that might help to answer those questions.

**Angela Cullen:** When we brought the report “Scotland’s public sector workforce” to the committee in December, we had quite a lot of discussion around ALEOs and the 10,000 staff who transferred to them. Of those, just over 9,000 transferred from local government, and the rest were from health and central Government bodies. They were changing into private sector providers but still providing public services—we made that point at the time.

We are doing work just now on ALEOs—the Accounts Commission has asked the auditors of all 32 councils to gather some baseline information for the current audit year, 2013-14. We want to know how many ALEOs exist—we do not even know that at the moment, and the number is growing. We also want to know what they are like; what they do; how much money they spend; and what councils’ governance arrangements are for them. That will give us some good information to inform the Accounts Commission’s decision about what it wants to do next. There may be a series of reports on ALEOs. We may want to delve into them a bit more deeply.

Information will be coming through over the summer and by the end of the year we should be in a very good position to decide what to do next.

**The Convener:** Thank you very much for that. I thank everyone for contributing to a very full discussion. It is clearly a subject to which we will return, not least when we get the report from the Accounts Commission.

## Public Audit Committee Report

### “Framework for auditing the Scottish rate of income tax”

11:15

**The Convener:** For item 3, members have responses from Her Majesty's Revenue and Customs, the National Audit Office, the Scottish Government and the Auditor General on the committee's report “Framework for auditing the Scottish rate of income tax”. Do members have any comments or questions?

**Colin Beattie:** I have a general comment. There are still an awful lot of gaps in the information. For example, the second paragraph on page 4 of paper 3 says:

“The details of the proposed enforcement and compliance regime are being developed further by HMRC”.

There are gaps in the assurances that we are being given and there are questions about Audit Scotland's involvement and how it could be made more effective. There is a lot of exploring still to do to ensure that the committee is properly involved in the process. We will need to return to the issue. Given that the implementation of SRIT is still a couple of years off, perhaps we could do so in a year's time.

**The Convener:** Yes. You will have noted that the first annual audit reports by the NAO and HRMC will be considered by the committee in mid-2015. The paper says that the first NAO report on the implementation of the Scottish rate of income tax will be laid before the Scottish Parliament in the summer of 2015. That gives us the opportunity to return to and consider the matter in more detail. The question is whether at this stage committee members want to do anything other than note the submissions in paper 3.

**Ken Macintosh:** I have a similar comment. The Government's response is fine, except that detail is lacking. I do not know whether we will get any of the detail before next year. I refer members to page 6 of paper 3. In response to the committee's comment in its report about including

“any proposed use of the cash reserve ... within the annual budget document”,

John Swinney says:

“We can confirm that the principle of these recommendations will be accommodated by the Scottish Government, and that the practical arrangements for doing so are currently being discussed.”

Although I am pleased that the cabinet secretary agrees with the principle, we want to know about the practical arrangements. Will we get the detail before the NAO report is published in summer

2015? I would have thought that members would want the detail.

**The Convener:** We could ask the Scottish Government whether it has any plans to provide more detail ahead of the publication of the report. As the paper suggests, we will have the opportunity to return to the issue next year.

**Ken Macintosh:** Yes.

Our report says:

"The Committee would welcome clarification from the Scottish Government of how it intends to assess the effectiveness of HMRC's compliance activities in relation to the SRIT."

That clarification matters as much to the Scottish Government as it does to us. As far as I can see, the Government will not do anything other than ask HMRC for information, monitor it and rely on the National Audit Office. I want clarification on whether the Scottish Government is commissioning any other work or whether it is relying on on-going relations between HMRC and Government officials.

**The Convener:** Next year both the Scottish Government and the committee will have the opportunity to look in more detail at the matter when the reports are laid. As part of that scrutiny, we can ask about any on-going work. However, next year will be the key stage ahead of implementation in 2016.

Do members agree to note the correspondence and seek further clarification from the Scottish Government?

**Members indicated agreement.**

## Section 23 Report

### "Accident and Emergency: Performance update"

11:18

**The Convener:** We move on to item 4. We have correspondence from the Scottish Government and Audit Scotland on the report. Do members have any comments?

**Tavish Scott:** I have a question following Willie Coffey's very fair observation about what we can do to ensure that matters that we have considered come back to us so that we can properly assess them.

In his correspondence, Paul Gray deals very sensibly and constructively with the report's recommendation on ensuring that

"NHS boards have access to benchmarking information on staffing levels".

Yesterday, Health Improvement Scotland was called in to look at Aberdeen royal infirmary at Foresterhill. That is a massive issue for my part of the world, so I am very pleased about Health Improvement Scotland's involvement.

Staff directly approached central Government, which took the sensible decision, in my view, to have an HIS inquiry rather than have the matter go through Grampian NHS Board. However, that is what worries me most, because the Auditor General and others who appear before us are always on at us about governance, and clearly something has gone wrong in this case.

I am not expecting this to be done today, because the report is retrospective, but in relation to future reports could the committee seek such assessments, with, for example, NHS Grampian being part of a properly assessed case study?

**Mary Scanlon:** I thought that Paul Gray's response was very effective: it was pretty thorough and addressed many of the committee's concerns.

I was drawn to the benchmarking information and Paul Gray's commitment to work with the NHS and the Scottish Government

"to ensure the relevant information is available so that Boards can make informed decisions on staffing levels and skill mix in A&E".

Basically, that is what we heard about from Grampian at the weekend.

Could we consider taking further oral evidence on the issue, given the concerns that arose over the weekend? Paul Gray has committed to publishing more data in September. Given our timetable over the next few months, it might be

October before we could take further oral evidence, so that would fit in with our working pattern. The information would be helpful, because it tends to highlight problems in Aberdeen.

**Ken Macintosh:** I was not entirely sure about the reply on effective hospital discharge processes. Paul Gray says that the recommendation is agreed, but he also says that

"All hospitals have discharge processes"

and then he talks about a new model. I am not quite sure about that: if hospitals already have discharge processes, they have not been working. We should ask what has changed.

**The Convener:** The question is whether we invite further evidence.

**Ken Macintosh:** Like Mary Scanlon, I think that that would be welcome. I think that we should take it in October or November.

**The Convener:** Do members agree to seek further evidence?

**Members indicated agreement.**

**The Convener:** Do we agree to let the clerk suggest some witnesses?

**James Dornan:** I thought that we would just take further evidence from Paul Gray.

**The Convener:** Tavish Scott has mentioned Grampian, so it would be useful to find out what is going on there, and we may wish to look at other areas. As well as hearing from Paul Gray, we need to find out from those on the front line.

**Tavish Scott:** To be helpful to James Dornan, let me explain that I am not asking for us to do any work before HIS reports; clearly, it would be right to wait for that. I understand from NHS Grampian's statement yesterday that HIS is due to report this summer, for obvious reasons. October seems entirely sensible.

**Bruce Crawford:** I agree that we should take further evidence. As Mary Scanlon suggested, it is right that we wait until after September, so that we can get an update on where we are.

There are two issues. One is the overall issue about accident and emergency, and it would be very useful to have Paul Gray speak to us about where we are at that stage. The second is the issue that Tavish Scott raised about Grampian. Should we treat those as two separate issues? That would allow us to bore down into the evidence. Obviously, there is a specific issue in Grampian.

**The Convener:** There could be issues in other areas. In my area, the Royal Alexandra hospital in Paisley has consistently been one of the two worst hospitals in Scotland, and we have not been able

to get to the bottom of that. It would be useful to find out from the health boards why problems with accident and emergency departments are significantly worse in some areas than in others, where A and E departments are doing pretty well.

**Bruce Crawford:** Maybe that is the key. Tayside seems to be doing well, so perhaps we should hear from Tayside about what it is doing differently.

**Tavish Scott:** Totally. That is exactly right.

**The Convener:** That is a sensible idea. On a number of occasions, the point has been made that we should not just dwell on the problems but look at the good practice. Does the committee agree that it would be useful to hear from those who are doing well and those who seem to be struggling, and also to hear from Paul Gray?

**James Dornan:** I am not against the idea of taking evidence from others; I was just confused.

**The Convener:** Is that agreed?

**Bruce Crawford:** I am new to this. As a committee, do we agree whom we invite?

**The Convener:** I will ask the clerk to the committee to circulate some suggestions, having listened to the discussion. The committee can then decide.

From my take on the matter, we have agreed that we should invite Paul Gray to give evidence; Bruce Crawford has also suggested that we look at Tayside. I will ask the clerk to consider whether we should talk to NHS Greater Glasgow and Clyde, because of the problems at the RAH. There are also issues in Grampian.

**Bruce Crawford:** Can I make another suggestion about that pool? When we discussed the report, the point was made about the correlation between 999 calls and A and E poor performance. Can we make sure that the pool of people whom we talk to includes at least one of the organisations that has a high number of 999 referrals but does not do so well in A and E overall? I think that Edinburgh is probably one area where that happens.

**The Convener:** That is a useful suggestion. Thank you.

We now move into private session.

11:25

*Meeting continued in private until 12:03.*

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e-format first available  
ISBN 978-1-78457-606-6

Revised e-format available  
ISBN 978-1-78457-620-2