FINANCE COMMITTEE

AGENDA

14th Meeting, 2005 (Session 2)

Tuesday 17 May 2005

The Committee will meet at 10.00 am in Committee Room 1 to consider the following agenda items:

1. **Efficient Government**: The Committee will take evidence on civil service reform as part of its scrutiny of the Executive's Efficient Government Initiative from—
   - Panel 1
     Richard Parry, Reader in Social Policy, School of Social and Political Studies, University of Edinburgh; and
     Professor Robert Pyper, Professor of Government and Public Management, Glasgow Caledonian University.
   - Panel 2
     Professor Michael Barber, Director of Delivery Unit, Cabinet Office.

2. **Reporter's Inquiry into Transport Spending**: The Committee will consider an approach paper.

3. **Item in private**: The Committee will decide whether to consider its draft report on the Financial Memorandum of the Family Law (Scotland) Bill in private at its next meeting.

Susan Duffy
Clerk to the Committee
The papers for this meeting are:

**Agenda Item 1**

Written submissions on Efficient Government and Civil Service Reform from:
- Richard Parry
- Professor Robert Pyper

PRIVATE PAPER

**Agenda Item 2**

Paper from the Clerk

FI/S2/05/14/1

FI/S2/05/14/2
Finance Committee

14th Meeting 2005 – Tuesday, 17 May 2005

Efficient Government And Civil Service Reform: Written Evidence Submissions

Background
1. Members will take evidence today from three witnesses on civil service reform as part of its monitoring of Efficient Government and to inform the Committee’s contribution to the Public Administration Select Committee’s inquiry into Civil Service Effectiveness. The witnesses will be: Richard Parry, a lecturer in the School of Social and Political Studies at Edinburgh University, and Professor Robert Pyper, Professor of Government and Public Management at Glasgow Caledonian University. They will be followed by Professor Michael Barber, Head of the Prime Minister’s Delivery Unit in the Cabinet Office.

2. Written Submissions from Richard Parry and Professor Robert Pyper are attached.

Recommendation
3. Members are invited to consider these submissions.

Susan Duffy
Clerk to the Committee
EFFICIENT GOVERNMENT AND CIVIL SERVICE REFORM

Submission from Richard Parry, Reader in Social Policy, School of Social and Political Studies, University of Edinburgh, 10 May 2005

1. The Committee’s inquiry encompasses two somewhat different matters – the process of civil service reform run for the UK Government by the Cabinet Office, and the efficiency review run by HM Treasury. What they have in common is that UK exercises provide both a constraint upon and a stimulus to the Executive’s own initiatives. Two questions arise. Would the Executive being doing the same thing if they did not have these ‘Whitehall connections’ to take into account? And do they amount to Whitehall interference in devolved matters and the freedom of the Executive to manage its own funds and personnel? Neither has clear answers.

2. Historically, public bureaucracies and especially the British civil service periodically go through cuts exercises in which the cost of the operating the public sector, untested by day-to-day market forces, is subject to cuts targets usually presented as attack on ‘waste’ or a shift to ‘front-line’ activities, and reform exercises designed to make the bureaucracy more responsive to political needs. Targets may take the form of an arbitrary cut in expenditure or numbers of staff. In recent British history, the most prominent such exercise was the 14% cut in civil service numbers imposed by the Thatcher government between 1979 and 1984. As the exercises have to managed by the bureaucracies they are attacking, they lend themselves to strategies designed to satisfy the political targets while protecting the bureaucracy from what it would consider as harm (which may include harm to the public or public services as well as itself). The targets are seldom fully investigated retrospectively and eventually the heat comes off. I can’t resist quoting a memo written by Sir Humphrey Appleby to his colleague in the written version of Yes Minister – ‘am hoping it will be like all the other government economy drives – three days of press releases, three weeks of ministerial memos, then a crisis in the Middle East, and back to normal again’ (Jonathan Lynn and Antony Jay, BBC 1981, p60).

3. Comparatively, the Executive’s programme reflects its status as an autonomous system of government whose financial and public service basis is still heavily dependent on the UK and so subject to manipulation by it. Intermediate governments internationally usually have control of their own public service and in most cases the fiscal autonomy to enable them to pay for their own policies. They may choose to pursue their own efficiency programmes under pressure to emulate those of other governments, but they usually have the choice. Scotland is distinctive in that the terms of its financial and managerial - as opposed to legislative - autonomy are defined by the preparedness of the UK government, and especially HM Treasury, to tolerate departures from the norms it is setting for government in England.
4. Since 1999 the Scottish Executive has been operating in a fairly benign climate for managerial efficiency. Attempts by the Major government to impose market-testing on the civil service and control departmental running costs in detail were judged to have failed, and these matters were by 1997 being left to departments as long as they could live within their overall allocations. After 1999 Labour’s spending review plans made more money available and emphasized output and outcome targets, not internal efficiency. This money flowed into the devolved administrations via the Barnett formula and allowed the new devolved system to be tooled up. Executive staffing increased to meet the understandable demands of ministers for policy advice and the promotion of legislation on the basis of research and consultation.

The Executive within the Home Civil Service

5. The Executive’s officials, as part of the Home Civil Service, were required to take part in some central initiatives (as is made clear in its Concordat with the Cabinet Office). The main one – Modernising Government and its associated Civil Service Reform – was under way before May 1999 but was continued without strain. My own research, undertaken as part of the ESRC Devolution and Constitutional Change Programme, suggested that senior Scottish officials found it convenient to use a civil service-wide programme as a vehicle for their own modernizing initiatives. The Executive’s ‘21st Century Government’ Programme was a ‘tartanised’ version of Whitehall themes and also allowed the establishment of a small fund to promote joined-up service delivery. ‘Changing to Deliver’ was an example of a Whitehall approach that the Executive chose to pioneer. It has emphasized the link between internal civil service organization and the satisfaction of ministers’ expectations. To the outside observer it appears to be so broad as to encompass almost anything that officials wanted to include. These programmes have also offered a welcome slice of non-Barnett money from the Cabinet Office to support various reform initiatives.

6. The Executive emphasises its freedom to work direct to ministers and the lack of any negative effect of its membership of the Home Civil Service. The Permanent Secretary’s submission to the Committee paints a picture of an autonomous administration in which the First Minster has a strong role in senior appointments. But the formal rules are the same as those applying to UK departments. The Civil Service Commissioners’ recruitment code (para 2.52-2.59) states that a minister’s views may be made known to the selection panel but that equally a minister may not pick and choose between short-listed candidates. A relaxation of the rules in 2004 allowed an interview panel to turn to a second candidate when the minister objects to the one recommended without re-running the whole competition, but went less far than the UK government had requested. Formal approval to the top two grades remains with the UK Prime Minister despite what seems to be the delegation of any active involvement in Executive appointments to the First Minister.
7. Generally, the lack of strain on civil service matters since 1999 can be attributed to the political confidence between the Scottish and UK administrations and the preparedness of the Cabinet Office and the Civil Service Commissioners to allow freedoms to be used in order to make devolution work. These variables cannot be guaranteed; the letter of the law is designed for UK government departments, not a devolved administration with its own accountable ministers. Similar considerations apply on the expenditure side to the relations with the Treasury.

Efficiency possibilities and the nature of the civil service task

8. Debate about cuts, waste and efficiency tends to obscure the differences in the tasks performed by civil service. At one extreme it can run processing operations very susceptible to productivity improvement in a way similar to private sector tasks; at the other its task can be high-level policy advice where the reinforcement of the official machine would be of small cost and good value. We could distinguish at least three groups of government activities:

i) processing tasks done by the civil service (benefits payments, tax collection, defence administration) where productivity improvements and outsourcing of back-office operations are likely to be possible;

ii) policy tasks done by the civil service where the scope for productivity improvement is likely to be low, especially with the demands of accountable government after devolution;

iii) government activity done by non-civil servants (such as the health service and local government) but largely funded by government departments. They can be included in a central government total but the instruments of control may be lacking or the considerations so service-specific as to make a general approach unwise.

9. The Scottish Executive’s activities fall mainly into the second and third categories. They do have some staff in the first category, now organised into executive agencies – including the Scottish Prison Service, Student Awards Agency, Public Pensions Agency and Historic Scotland. These should be the starting-point for any efficiency strategy, for if they are not done well the Executive cannot be a credible leader for the rest of the Scottish public sector.

The 2004 reform plans, Gershon and ‘extrapolation’

10. It is hard to see the Executive’s current programme as anything other than primarily a response to the UK Treasury’s initiative in 2003 to set a new agenda for civil service efficiency. The Treasury was concerned by the rises in departmental administrative costs and numbers since the brakes had come off in 1999, and enthused by the modern public management agenda of more efficient and flexible service delivery mechanisms. The Labour government was also concerned about being outflanked by the Conservatives on the likely savings available. The
Treasury asked their efficiency adviser, Peter Gershon, whose background was in procurement, to look at the possibilities and he recommended cuts that could be made in ‘back office’ staff while protecting front-line service delivers (Releasing Resources to the Front Line: Independent Review of Public Sector Efficiency, July 2004).

11. There is room for scepticism about the front-office/back-office distinction and the notion that time spent in the latter is a potentially inefficient diversion from delivering services to users. The back office is the location of policy expertise (especially technical and financial) which ministers have proclaimed as increasingly necessary after high-profile policy-making failures (not least the Holyrood Parliament building). The front office is certainly susceptible to contracting-out, but if this is done to meet a target of money savings, and especially job cuts, it may represent high risk and poor long-term value, as well-documented IT failures show. Efficiency is a wider concept than contracting-out and embraces the management of skills and knowledge within an organization. The civil service is at an early stage in building up career paths with strong managerial skills, and individual high-profile external appointments (such as the Executive’s in human resource management) are not a substitute for this.

12. The July 2004 Spending Review document contained the statement that ‘the Scottish Executive and Welsh Assembly Government have announced that they are engaged in spending review efficiency and evaluation exercises as ambitious as those in England, including rationalising back office and related areas’ (para 2.19). The plans ‘extrapolated’ job savings to Scotland, Wales and local government. Both the Scottish and Welsh administrations unofficially claimed surprised at this, and their own detailed plans were not announced until the autumn.

The ambition of savings

13. The Finance Committee’s session with the Minister for Finance and his officials on 7 December 2004 explored thoroughly the deficiencies of the Executive’s efficiency document. The Executive’s tasks fall mainly into the second and third categories described above, and they could offer only low savings from departmental portfolios. The Scottish plans seem less detailed and probably less ambitious than the English targets, where minimum efficiency savings have been set and job savings specified for all departments. To know for sure we would need English data on the same mix of functions as the Executive’s, and these are lacking (the same problem that bedevils financial comparisons). The Efficiency Technical Notes issued by the Executive on 31 March 2005 reveal a lack of detail and a high level of aspiration in the big cost savers (local government, health service, procurement). Many health items (reducing hospital admissions, lower drugs prices) are scarcely efficiency issues. The savings to be secured from the Executive’s own agencies are low (e.g. the Scottish Prison Service and Scottish Public
Pension Agency). These further documents reinforce my feeling that it does not make sense for the Executive to run efficiency exercises for the whole of the Scottish public sector when they have so little engagement with the issues in their own core operations. We should also note that when the Welsh proposals emerged in October 2004 (Making the Connections: Delivering Better Public Services for Wales) they were even less ambitious, a target of 1% a year for the longer period of 5 years (p 22), and less detailed. This extends a theme of greater Welsh autonomy from the Treasury/Cabinet Office agenda, and of an unapologetic ‘clear red water’ between Wales and Whitehall. In contrast, the Executive has resisted ‘clear blue water’, claiming a high level of compatibility between its initiatives and practices and those being pursued in Whitehall.

Perspectives for the Committee

14. To evaluate the Executive’s plans we need to understand:

- How far the Executive has been promoting efficiency in those of its direct responsibilities that relate clearly to the ‘Gershon agenda’ (e.g. prisons, student grants, public pensions)

- What a long-term efficiency strategy related to expenditure planning and not a headline-seeking ‘economy drive’ would mean for the Scottish Executive

- How far the Executive is free to resist the general perspectives on public management set out by the Treasury and the Cabinet Office

- Whether the Executive’s proposals are indeed ‘no less ambitious’ than Whitehall’s or whether, as is more plausible, they are less ambitious overall and particularly in the Executive’s own operations, with most of the headline total coming from arbitrary assumptions of savings to be a secured by local government and the health service

- How far in practice an exercise of the present kind is the only basis on which governments can take efficiency seriously and so, despite its deficiencies, should be welcomed.
I would like to thank the Finance Committee for the invitation to submit evidence to this inquiry. I welcome the fact that the Committee is picking up these extremely important issues and themes, and bringing its scrutiny to bear on aspects of the civil service in Scotland. While I understand the rationale for the committee structure of the Scottish Parliament, and I recognise the useful work on civil service matters carried out by this and other committees of the Parliament since 1999, it seems to me that Holyrood lacks the equivalent of the House of Commons Public Administration Committee, and in that sense many of the structural, managerial and operational issues affecting the civil service in Scotland do not receive the type of ongoing scrutiny which is to be found at Westminster.

This evidence comes with a ‘health warning’. It is offered by an academic with a long-established research interest in the civil service, and numerous publications resulting from this (see, for example, Massey and Pyper, 2005; Pyper, 1995; Pyper, 1999; Pyper and Kirkpatrick, 2003). My current research, for example, is partly focused on studying the impact of the devolved polity on civil service accountability (to both the Scottish Parliament and the National Assembly for Wales). However, the work of academics in this sphere is traditionally open to the criticism that it lacks engagement with the realities of life and work in the civil service. While I try to ensure that my contacts with civil servants and politicians keep the work as fresh and relevant as possible, it is ultimately academic research, and it suffers from the weaknesses of that genre!

1. I was asked to submit evidence in the context of the Committee’s twin-track scrutiny of Efficient Government and Civil Service Reform, taking into account the submissions you have already received, particularly the evidence supplied by John Elvidge. Furthermore, my understanding is that the Finance Committee wishes to submit its own evidence to the House of Commons Public Administration Committee in the context of the latter’s inquiry into civil service effectiveness. Amongst the key issues being examined by the latter, and of particular interest to a committee of the Scottish Parliament, are questions concerning the appropriateness of the unified civil service in the era of devolved government, and the most suitable relationship between the civil service and other public services.

2. The responses of the Cabinet Office and the Permanent Secretary of the Scottish Executive to these questions are, unsurprisingly, very clear.
First, on the issue of the unified civil service, the Cabinet Office (2005) stated that ‘The UK Civil Service is an asset to the nation …the structure of the civil service continues to be a unified, but broadly federal one …the civil servants serving the devolved administrations (other than the Northern Ireland Civil Service) continue to be part of this structure, which allows those administrations the flexibility to work with their own priorities whilst accessing the training and development opportunities of the UK Civil Service as a whole.’ In a similar vein, John Elvidge (Finance Committee, 2005a) emphasised the important balance between the autonomy which allows the Scottish Executive ‘to shape a distinctive civil service culture and set of behaviours which match the ethos of devolution’ and the ‘common principles or controls; common arrangements or systems; and common external factors’ which frame the autonomy in the broader context of the UK civil service.

3. To the impartial observer, it appears that these views have considerable merit. In the era of ‘multi-level governance’ and the ‘differentiated polity’ (see, for example, Bache and Flinders, 2004; and Rhodes, Carmichael, McMillan and Massey, 2003), each of which imply complex, yet creative and largely positive relations between officials and politicians across the different layers of the system of government, there would seem to be little purpose in the creation of a distinct ‘Scottish civil service’ merely for its own sake. This matter was apparently given some consideration within the Scottish Office in 1997 (private information), on the basis of the Civil Service of Northern Ireland model, but was rejected. As long as the benefits of belonging to the broader unified civil service continue to outweigh the costs, and the balance between autonomy and commonality to which John Elvidge refers remains sound, why embark on what could be an expensive and time-consuming re-branding exercise?

4. However, while at the current, relatively early stage in the evolution of the devolved polity we might take the unified civil service as a ‘given’, it is still important to focus on the scope for change within that context. Furthermore, depending on the nature and extent of the change, it is possible that, over time, the civil/public service in Scotland might become so distinct, and the threads linking Holyrood with Whitehall so tenuous, that it makes sense to speak of a ‘Scottish model’. In one sense, this brings us to the official responses to the second key question, concerning the most suitable relationship between the civil service and other public services. It is possible that one of the ways in which the civil service in Scotland could become increasingly distinct from its Whitehall parent could be through a move in the direction of a unified Scottish public service. Again, unexpectedly, there are broad similarities in the responses from the Cabinet Office and John Elvidge to this question. While identifying examples of public sector-wide initiatives including the Public Service Leadership Consortium, the Cross Sector Leadership scheme, and the Public Service Employers’ Forum, the Cabinet Office (2005) disparages the idea of ‘creating one large and unwieldy organisation to design and deliver all public services. Such a
step would be costly, disruptive and reduce flexibility and responsiveness. It would raise major questions about the operation of local democracy – how, for instance, would locally elected politicians influence service delivery in their areas?’ In his oral evidence to the Finance Committee (2005b, col 2247-48), John Elvidge echoed this viewpoint. Discussing staff transferability and employment conditions issues, he argued strongly against any attempt to bring public sector staff within ‘a single employment structure’ – ‘Having, at an earlier stage in my career, merged two organisations that had different conditions of service, I would say that that was one of the most time consuming and yet not obviously productive management tasks in which I have ever been engaged. We should not lose sight of the enormous diversion of effort that would be required …That is a base, pragmatic point, but it is burned on my soul from experience.’ Elsewhere in his evidence (cols. 2229 and 2230) he went to considerable lengths to emphasise the distinctive nature of the civil service in Scotland – more cohesive and unified than the disaggregated version ‘in the south’, while less involved in direct service delivery than either that version or the broader public service (local authorities and health boards) in Scotland. This might be taken to imply that, in the view of John Elvidge, not all elements of the civil service reform agenda emanating from Whitehall are appropriate for the Scottish Executive.

5. Notwithstanding these rather defensive comments, the Scottish Executive Permanent Secretary acknowledged that adherence to the status quo is not a serious option: indeed, ‘we are currently in a period of accelerating rather than decelerating change’ (Finance Committee, 2005b, col 2229). In this context, what are the options for the future development of the civil service in Scotland? Two models would seem to be possible.

6. The first model might be described as involving broad continuity, coupled with selective adoption of managerial and cultural changes. In some senses, this was the strategy adopted by the senior civil service in Edinburgh in the immediate pre- and post-devolution transitional periods, as described in the research carried out by Richard Parry (Parry and Jones, 2000; Parry, 2001). While Parry emphasised the essential continuities between the Scottish Office and the Scottish Executive (in civil service terms at least), it is fair to say that in at least one important respect, Holyrood officials were obliged to cope with considerable change, as the civil service in Edinburgh was transformed from one of the least to arguably the most scrutinised part of the system, and had to adopted to a new culture of accountability (Pyper, 1999; Pyper and Kirkpatrick, 2003). Under this model, the senior civil service in Scotland, in conjunction with ministers, would continue to pursue managerial reforms (with an increasing focus on issues of delivery) by embracing and where necessary adopting Scottish versions of initiatives in the mould of Modernising Government, 21st Century Government, Changing to Deliver and the Efficient Government Plan. Proponents of this model would argue that any attempts to move beyond its confines, to embrace
broader structural changes up to and including those involving the creation of a Scottish public service which straddles the civil service, local government, the health service and NDPBs, would be expensive, legally complex, administratively chaotic, and potentially damaging for local democracy.

7. The second model would involve structural change, take the system of governance in the direction of an inclusive public service, and arguably facilitate a distinctly Scottish approach to public management and administration within the UK context. This would serve to align Scottish governance with the approach common in many European states, where the ‘civil service’ typically encompasses officials at central, federal and local levels. Such a move could be seen as being in line with developments in the era of multi-level governance and the differentiated polity. Furthermore, the creation of a public service is being seriously considered in Wales, even although the devolution settlement there is a considerably diluted version of the one we have in Scotland. Rhodri Morgan, the Welsh First Minister, has strongly supported the idea of ‘a Welsh public service, rather than a Welsh civil service’ (cited in Prosser, 2003, p.3). Given that the reform agenda and ‘delivery’ imperatives one discerns within such initiatives as Modernising Government, the Gershon Report and the Efficient Government Plan are addressed to the public service as a whole, and not simply to the civil service, it is argued by some observers (see, for example, Public Administration Select Committee, 2005) that the civil service as a whole could usefully embrace the principle of closer structural linkages with other parts of the public sector. We can also note in passing that one element of the administrative accountability regime in Scotland, has already moved to a common ‘public service’ model with the creation of the office of the Scottish Public Services Ombudsman as a replacement for the earlier separate Parliamentary, local government and health service ombudsmen. Without minimising the possible legislative and organisational obstacles which would have to be overcome in order to create a Scottish public service, proponents of this would argue that the prize such a reform could deliver would be the realisation of the long sought for objectives of joined-up government, integration across a range of service areas, efficiency gains and the freeing-up of resources for front-line services, rational policy-making, one-stop shops for the users of public services, clarified lines of accountability, and opportunities to address perceived gaps in leadership or other specialised skills. Proponents of this model (see Public Administration Select Committee, 2005 and Prosser, 2003) would argue that it would not require fundamental reform of local government and need not have an adverse effect on the principle of local democracy.

8. The two possible routes to implementation of the second model, were this to find favour with the Scottish Parliament and ministers, would be a radical, ‘big bang’ approach or a pragmatic, evolutionary, incremental approach. The former, implying a rush towards sweeping legislative change with minimal consultation and experimentation would be
inadvisable, and would be at odds with the inclusive, cross-party culture and ethos of the devolution settlement. The pragmatic approach would involve establishing key building blocks for reform, perhaps by developing some of the themes touched upon by the Minister for Finance and Public Service Reform in his address to the COSLA Conference in April 2005 and moving towards carefully selected experiments with public service integration, spanning local government, the health service and the civil service. The problem with the building block approach is that if it is taken in isolation from a clearly enunciated commitment to strategic reform, it runs the danger of simply spawning a plethora of units and cross-cutting task forces and adding to the problem of initiative overload from which aspects of the system of government already suffer, without producing the required transparency, accountability and improved service delivery on the ground. For the pragmatic approach to succeed, a balance would have to be struck between incremental experimentation and a clear medium to long-term commitment to use these types of building blocks as the basis for the major strategic change within an agreed timetable.

9. While I would not pretend that I have formed a clear view on all of the respective merits of the approaches to reform outlined above, I look forward to discussing these, and other issues with you at the evidence taking session.

References:


Cabinet Office (2005) *Memorandum by the Cabinet Office (CSE 11) to the Public Administration Select Committee* 16 March.


Public Administration Select Committee (2005) *Oral Evidence Taken from Professor Christopher Hood, Dr. Martin Lodge and Professor Colin Talbot, 3 March* HC 307-iii, 2004-05.


Finance Committee
14th meeting 2005, Tuesday 17 May 2005

Reporters Inquiry into Transport Spending

Background
1. When the Committee considered its work programme at its meeting on 25 January 2005, the Convener suggested that a reporter could be appointed to investigate transport spending. At the meeting, the Convener indicated that he would be interested in taking on the role of reporter and asked that if any member was interested in being a reporter for such an inquiry, then they should contact him.

2. As no-one else has indicated that they would like to take on this role, this paper seeks agreement to appoint the Convener, Des McNulty, as a reporter to undertake work relating to transport spending.

Remit
3. The following remit for the inquiry is being put forward for the Committee’s agreement.

“To investigate the process by which decisions on the funding of transport projects are taken; in particular to investigate the appropriateness of the STAG appraisal criteria against which projects are assessed for inclusion or exclusion within the transport section of the Infrastructure Investment Plan; to consider how project proposals should be assessed both in terms of the relative merits of one project against another, their regional or national impact and their contribution to wider objectives eg, economic growth; and to consider how Parliamentary scrutiny of decision making regarding infrastructure expenditure could be made more effective, along with financial monitoring of the delivery of projects and contracts, especially in the light of Lord Fraser’s recommendations. “

Further steps
4. Given that many of the issues covered by the remit were raised with the Minister for Transport and his officials at the Committee meeting on 26 April 2005 in the context of the Infrastructure Investment Plan, the Convener will, initially, seek discussions with the Minister and his officials. The Convener will provide a report to the Committee by mid-September for its consideration.

5. When the Finance Committee investigates the financial implications of an issue that comes within the remit of another committee, it is usual for the committees (through the Conveners) to discuss and agree the suggested approach and therefore, the Convener will seek discussions with the Convener of the Local Government and Transport Committee on this proposed inquiry.
6. The Committee is invited to agree the remit and approach for this inquiry.

Susan Duffy
Clerk to the Committee