FINANCE COMMITTEE

AGENDA

15th Meeting, 2005 (Session 2)

Tuesday 24 May 2005

The Committee will meet at 10.00 am in Committee Room 4 to consider the following agenda items:

1. **Budget Seminar**: The Committee will consider a paper on its Budget Seminar in March 2005.


3. **Health Committee post-legislative inquiry**: The Committee will consider an approach paper.

4. **Family Law (Scotland) Bill (in private)**: The Committee will consider its draft report on the Financial Memorandum of the Family Law (Scotland) Bill.

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

**Agenda Item 1**
Paper from the Clerk  
**FI/S2/05/15/1**

**Agenda Item 2**
Paper from the Clerk  
Report by the Adviser  
**FI/S2/05/15/2**  
**FI/S2/05/12/3**

**Agenda Item 3**
Paper from the Clerk  
**FI/S2/05/15/4**

**Agenda Item 4**
PRIVATE PAPER
Report from Committee’s Budget Seminar

Background
1. On 22 March 2005, the Committee held a budget seminar to which former members of the Financial Issues Advisory Group (FIAG), representatives from the Scottish Executive and the private sector and academics were invited.

2. The purpose of the seminar was to consider how the budget process had changed since the establishment of the Parliament and whether these changes have been effective and whether more change is yet required; and to consider how best to ensure that the performance measures used by the executive are realistic, useful and transparent. Ideas from the seminar would then aid the Committee’s scrutiny of the Executive’s budget.

3. To focus the discussion, the Committee’s budget adviser provided five key issues for discussion which were:

   a. The principle of setting targets as a mechanism of accountability in the budget process. The Committee’s discussions recognised that the use of targets is imperfect, but preferable to not having any at all.

   b. The principle of integrating financial and performance information in the budget documents. At the moment, this approach has a major constraint; it is easier to link outputs to budgets than to outcomes. The question that arises is whether the outcome measures should be regarded as tools of strategic management rather than resource allocation, and dealt with in a broader strategic planning document which reconciles what other governmental institutions and external factors can influence performance/results.

   c. The principle of standardisation of information in aims, objectives and targets. At the moment, some functions, objectives and targets cut across programmes within the budget as a whole (e.g. Justice), others relate to groups of programmes within broad objective (e.g. Communities), whilst in others, the targets are set in one portfolio and funding in another (e.g. education, funded by block grant in Finance and Public Services).

   d. The principle of providing incentives for meeting targets. At the moment, no explicit rewards system is in place, but the Committee would welcome views as to whether the introduction
of a “performance bonus” is a practical proposal, given the imperfect state of the technique.

e. The principle of holding the Executive to account for its performance against targets. At the moment, whilst there is formal reporting of performance against targets, ministers do not sign up to them individually in the way UK ministers do in Public Service Agreements. Do we need a more formalised system?

4. The attendees at the seminar and Committee members were divided into two discussion groups and reports from both groups are attached as an annexe to this paper.

**Issues for consideration**

5. There were many areas of agreement between the two groups, such as recognising the need for targets but that performance management did not simply equal target setting and that if there are too many targets then too much time is spent on merely trying to manage them.

6. This sentiment was echoed by Professor Michael Barber, Head of the Prime Minister’s Delivery Unit in the Cabinet Office when he gave evidence to the Committee on 17 May 2005. He said that “it is important to limit the number of priorities…the treasury and ministers in London have accepted that they definitely had too many targets at the beginning and the targets have become fewer and much more focused. The design of the target is important too.”

7. There was also agreement over the need for “buy-in” from all parties in the delivery of targets so that individuals could feel part of the process and that this itself can provide an incentive to achieve targets. Again, this was echoed at the Committee’s meeting on 17 May 2005 by Professor Robert Pyper when talking about reform. He said that: “the ideal solution would be to have agreement throughout the civil service and ministerial ranks about the reform process, so that the civil servants and the minister invest in the process and are all pulling in the same direction”.

**Outcomes**

8. Where there was some disagreement between the groups was over the question of whether outcome measures should be regarded as tools of strategic management rather than resource allocation and therefore, whether they should be dealt with in a reporting framework that is separate to the budget documents. Group One believed there was a need to separate outcome measures from the budget while Group Two tended toward keeping them together, whilst recognising that it is sometimes difficult to link spending to outcomes.

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1 Barber, Official Report, 17 May 2005, Col 2619
2 Pyper, Official Report, 17 May 2005, Col 2607
9. It is suggested that the Committee could discuss this issue further. One possibility would be to treat the strategic outcomes the Executive is trying to achieve (ie, economic growth, closing the opportunity gap and sustainable development) in a distinctive section within the budget documents. This would recognise that the whole range of government activities – eg, policy development, guidance, legislation and regulation, contributes to delivery on strategy and not just to budget. At Westminster, cross-cutting targets are set separately from portfolio targets.

**Performance Management**

10. Workshop One made the point that “there was still some way to go to reach effective performance accountability”. In his presentation to the Committee on 17 May, Professor Michael Barber outlined the role of the Prime Minister's Delivery Unit in driving performance management and ensuring accountability for the delivery of goals and meeting of targets.

11. The Professor outlined the framework introduced by the Delivery Unit which is: Departments must produce plans for achieving their goals; the Unit produces monthly reports on key data streams; stocktaking meetings are held between the Prime Minister and key secretaries of state and therefore, Departments and their permanent secretaries must report to their Minister; the Unit holds priority reviews with Departments; from this, the Unit helps with problem solving/corrective action if necessary; and the Unit produces a delivery report.

12. The Committee signalled that it would like to find out more detail about the work of the Delivery Unit and it was suggested that Committee clerks, SPICe and the adviser could visit the Unit to discuss the background to the examples of good practice which were illustrated by Professor Barber. If the Committee agrees to this, a trip could be organised during July with a view to reporting back to the Committee at its away day in August. This could allow the Committee to have further discussion about how these issues of performance management can be taken forward with the Executive.

**Conclusion**

13. The Committee is invited to:

- discuss the issue of the framework for reporting outcomes;
- agree to a visit to the Delivery Unit in relation to performance management.

Susan Duffy
Clerk to the Committee
ANNEXE – REPORTS FROM WORKSHOP GROUPS

Report from Workshop One

Responses to questions in adviser paper

a) The principle of setting targets as a mechanism of accountability in the budget process. The Committee’s discussions recognised that the use of targets is imperfect, but preferable to not having any at all.

The group agreed that targets are useful but only where they are relevant to a broader sustainable strategic vision. Whilst some concerns were raised about the level and detail of targets presented to the Committee, the group was broadly agreed that targets were useful. It was important however to be clear that performance management did not simply equal target setting (and in addition some concerns were raised that performance management was not effective and that instead the move should be towards competitiveness).

The group considered that there needed to be a balance of hard and soft targets and that these needed to be underpinned by a proper understanding of value, return and risks.

As an aside, in terms of economic growth targets, the group noted that no company sets targets for share price or earnings. Instead factors under the control of the company – eg costs, market share – are targeted and it is anticipated that meeting these targets will influence share price and earnings.

b) The principle of integrating financial and performance information in the budget documents. At the moment, this approach has a major constraint; it is easier to link outputs to budgets than to outcomes. The question that arises is whether the outcome measures should be regarded as tools of strategic management rather than resource allocation, and dealt with in a broader strategic planning document which reconciles what other governmental institutions and external factors can influence performance/results.

The group noted that FLAG had two initial strands: financial accountability and performance accountability. The group considered that good progress was being made towards the former but that there was still some way to go to reach effective performance accountability. Again the group had concerns about the lack of overall strategy and a corresponding inability to track progress against spend.

It was suggested during the session that there was a need to separate outcome measures from the budget.
c) The principle of standardisation of information in aims, objectives and targets. At the moment, some functions, objectives and targets cut across programmes within the budget as a whole (e.g. Justice), others relate to groups of programmes within broad objective (e.g. communities), whilst in others, the targets are set in one portfolio and funding in another (e.g. education, funded by block grant in Finance and Public Services).

The group did not discuss this issue in detail. Concern was raised about the lack of comparative data across, for example, local authorities, which meant that there was no clear link between data and budget allocation.

d) The principle of providing incentives for meeting targets. At the moment, no explicit rewards system is in place, but the Committee would welcome views as to whether the introduction of a “performance bonus” is a practical proposal, given the imperfect state of the technique.

This was not really discussed as set out. The group did however raise concerns about the perceived lack of fit between organisational structure (in the Executive and the various delivery bodies) and strategic vision. Private sector members said that ‘incentives won’t work unless individuals can influence outcomes.’

e) The principle of holding the Executive to account for its performance against targets. At the moment, whilst there is formal reporting of performance against targets, ministers do not sign up to them individually in the way UK ministers do in Public Service Agreements. Do we need a more formalised system?

Again, not really discussed.

Other issues raised in discussion

1) Financial memoranda

Members considered that the procedures for considering financial memoranda, particularly where the Committee had concerns about the adequacy of the information contained in them, required further consideration. There was support for some mechanism to require or compel the Executive to resubmit such FMs as an attempt to provide an alternative to voting down the entire bill.

2) Core vs marginal funding

It was noted that the public funding environment since devolution had been very benign and that there was no guarantee of a continuation of this position.
In this context the group agreed that there was a need to scrutinise core budgets as well as changes at the margin. In terms of a private sector/business approach, the question might be ‘how much does it cost the Executive to do what it has to do (for example, by statute)’
Report from Workshop Two

Responses to questions in adviser paper

f) The principle of setting targets as a mechanism of accountability in the budget process. The Committee’s discussions recognised that the use of targets is imperfect, but preferable to not having any at all.

The group explored how the setting of targets operates in the private sector and considered whether this can be translated into the public sector. In the private sector, targets are used to measure performance of individuals and also used to benchmark a particular organisation against other organisations. Whilst recognising that the Executive did not operate in the same competitive culture, it was noted in effect, the Executive is competing with the UK government and governments elsewhere and with the added dimension of the media attention and electoral accountability then there is a similar motivation in meeting targets.

There was agreement that there should not be a large number of targets. It was also important that they were meaningful and appropriate. It was suggested that if there were too many targets, then too much time can be spent on merely managing the targets.

It was suggested that some performance systems can benefit from having fewer targets but more performance indicators. Using such indicators would aid the learning process rather than having a simple system where people are simply “named and shamed” for failing to meet targets. However, it was recognised that no one system would suit all.

g) The principle of integrating financial and performance information in the budget documents. At the moment, this approach has a major constraint; it is easier to link outputs to budgets than to outcomes. The question that arises is whether the outcome measures should be regarded as tools of strategic management rather than resource allocation, and dealt with in a broader strategic planning document which reconciles what other governmental institutions and external factors can influence performance/results.

There was a feeling that to separate out financial and performance information into different documents would serve to confuse. It was asserted that it was desirable for managers to focus on outcomes and not just outputs and the budget documents were a good focus for outcomes. It was noted that there are external factors which can influence outcomes over which the Executive has little control, but it was also argued that in many areas there is a causal link between spending and outcomes and it would not be beneficial to break that link. However, the group did recognise that it is sometimes extremely difficult, given the diffuse nature of government, to link spending to outcomes eg, health spending.
h) **The principle of standardisation of information in aims, objectives and targets.** At the moment, some functions, objectives and targets cut across programmes within the budget as a whole (e.g. Justice), others relate to groups of programmes within broad objective (e.g. communities), whilst in others, the targets are set in one portfolio and funding in another (e.g. education, funded by block grant in Finance and Public Services).

The group recognised this was a difficult area. The group discussed the ways in which “buy-in” can be assured particularly in cross-cutting areas. It was suggested that, as in some parts of the private sector, people are not encouraged to think in terms of functional units. Rather that a matrix management system is set up whereby people are brought together from around the organisation for a particular task or project. In the Executive, cross-cutting priorities could be addressed where Ministers and their relevant officials work collectively. However, it was pointed out that there could be difficulties in this approach when at the time of a Spending Review, individual ministers must bid for money for their own department.

i) **The principle of providing incentives for meeting targets.** At the moment, no explicit rewards system is in place, but the Committee would welcome views as to whether the introduction of a “performance bonus” is a practical proposal, given the imperfect state of the technique.

j) **The principle of holding the Executive to account for its performance against targets.** At the moment, whilst there is formal reporting of performance against targets, ministers do not sign up to them individually in the way UK ministers do in Public Service Agreements. Do we need a more formalised system?

The group again looked at the private sector to see whether methods can be transferred to the public sector. It was recognised that performance pay plays a large part in the reward system in the private sector. It was also noted that the Scottish Executive does have performance related pay but probably not to the same degree as in the private sector where sometimes even basic salary can be determined by performance. It was asserted that money is not always a motivating factor and that other incentives, such as additional training and developmental opportunities can be used.

It was acknowledged that in the private sector, if money is saved then it is not usually retained to be used elsewhere in a particular company. However, in the public sector the group discussed that reward for achieving targets and achieving efficiencies would be retention of any money saved to use in other areas (as is being promised by the Executive’s Efficient Government initiative). The group recognised that in the past, money not spent in
portfolios would be lost to that portfolio which actually proved to be a disincentive to make savings.

It was pointed out that in Scotland, a collective, cabinet approach exists to target setting. What this means is that although each target has the name of an individual minister and official attached to it, it is not seen that it is the responsibility only of those individuals to achieve the target and that collective responsibility will be taken. It was felt that this collective could be lost if Scotland were to adopt Public Service Agreements as at UK level where an individual minister takes sole responsibility.

It was felt that as an alternative to the PSA system Ministers should be asked much earlier in the target-setting process what their priorities are. From this would be produced a portfolio statement for which the Minister can be held to account.
Finance Committee

15th meeting 2005, Tuesday 24 May 2005

Efficient Government – Approach to scrutiny

Background

1. The Committee agreed on 25 January that once the Efficient Government Technical Notes had been published and evidence had been taken from the Minister for Finance and Public Sector Reform, it would consider how it would further scrutinise the Executive’s plans.

2. The Committee has already agreed that it will visit various organisations for whom Technical Notes have been produced to find out more about how efficiency savings are going to achieved and monitored. Members of the Committee will be visiting Forth Valley Health Board, Stirling Council and VisitScotland on 7 June and Scottish Enterprise, Glasgow Council and Scottish Natural Heritage on 21 June.

3. To present a fuller picture about the extent of efficiency savings within each Portfolio, Annexe 1 shows the total amount of savings anticipated from each Portfolio as a percentage of the total budget of that Portfolio.

Future Approach

Evidence

4. The letter from the Minister for Finance and Public Sector reform dated 3 May 2005 stated that the time-releasing technical notes will be published in May and the Committee is invited to consider asking the Minister to give evidence once these notes have been published.

5. Audit Scotland has now issued a letter to the Executive setting out its views on the Efficiency Technical Notes. The Committee is invited to consider whether it would like to take evidence from Audit Scotland. Given that the Committee only has two formal meetings scheduled in June because of the case study visits, the Committee may wish to schedule such a session in September instead.

6. Further suggestions on oral evidence sessions are given in the next section of the paper with regard to budget scrutiny.

Budgetary Scrutiny

7. In his letter, the Minister for Finance and Public Sector Reform states that the Executive is “proposing to provide the committee with an annual report in June that indicates the target savings and the actual achievement against that target for the year.” The first of these reports will be published in June 2006.
8. The Committee has stated that what is needed for proper scrutiny is:

- A clear summary of savings made in each budget;
- A clear identification of appropriate budgets for comparison with savings;
- A clear summary of growth in service provision facilitated by Efficient Government Savings;
- A clear explanation of how procurement savings will be monitored; and
- A summary of posts lost from the exercises

9. The Minister has indicated that the Executive intends to involve Finance Committee officials in the development of the format of this report and the Committee is invited to agree that Committee clerks and the adviser work with Executive officials on this.

10. It was originally envisaged that scrutiny of Efficient Government savings could be linked with budget scrutiny. However, it is clear that the timing of annual reports on efficiency savings does not coincide with either Stage 1 (which will occur every two years) or Stage 2 of the Budget Process. By the time of publication of the Scottish Executive’s Draft Budget 2006-07 at Stage 2 of the Budget Process this year, it is clear that there will be no document available setting out interim progress against targets for the Committee to scrutinise.

11. It is suggested that in the intervening period, the Committee should take evidence on particular projects where there is concern about lack of information, potential disruption to service etc. While the Committee has signalled that it does not want to deal with the minutiae of each efficiency project, such evidence sessions could help to give a picture of the methods being used to identify and track savings.

12. With this in mind, it is suggested that the Committee might wish to take oral evidence from managers of projects which members feel would benefit from further scrutiny either in terms of the amount of the efficiency savings or in terms of the information given about how the savings will be achieved.

13. The total of efficiency savings identified for the Health Service as laid out in the technical notes are as follows (showing the cumulative cash releasing savings):
<table>
<thead>
<tr>
<th>Project</th>
<th>Savings 2005-06 £m</th>
<th>Savings 2006-07 £m</th>
<th>Savings 2007-08 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement</td>
<td>33</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Support Service Reform</td>
<td>0</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Logistics Reform</td>
<td>0</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Improved prescribing of drugs</td>
<td>5</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Preventing inappropriate hospital admissions</td>
<td>5</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Efficiency Savings*</td>
<td>83</td>
<td>85</td>
<td>90</td>
</tr>
<tr>
<td>Facilities Management</td>
<td>0.1</td>
<td>0.4</td>
<td>0.8</td>
</tr>
<tr>
<td>Drugs Pricing</td>
<td>42</td>
<td>42</td>
<td>42</td>
</tr>
</tbody>
</table>

- NHS Chief Executive Officers have signed up to deliver 1% recurring efficiency savings which will be made through improving productivity, better use of existing resources and better use of existing capacity.

14. Given that there is minimal information in the technical note describing Efficiency Savings and that these savings account for the largest proportion of savings for the NHS, it is suggested that the Committee invite evidence from the project manager, Peter Collings from the Scottish Executive.

15. In addition, questions were raised over the projected efficiency savings for Concessionary fares and on rail franchise procurement and again, the Committee may wish to seek evidence from the relevant project managers, Jonathan Moore and Tom MacDonald.

16. The Committee’s budget adviser had previously signalled that there were further questions which could be asked about the savings in procurement and in local government, given that they represent a large proportion of the total savings and therefore, it is suggested that the relevant project managers could be asked to give evidence on these areas.

17. This evidence could be taken after the summer recess either in September or October.
18. It is also suggested that when the Committee scrutinises the Executive’s annual efficiency report (which could either be in June or September depending on the date of publication), that subject committees could be encouraged to look at part of the report relevant to them as part of their scrutiny of the Executive’s draft budget at Stage 2 of the Budget Process. Such a suggestion could be incorporated into the Guidance for Subject Committees which is produced at the beginning of Stage 2.

Conclusion

19. The Committee is asked to consider the following:

- to take oral evidence from the Minister for Finance and Public Sector reform following publication of the time-releasing technical notes (probably in June);

- to take evidence from Audit Scotland (possibly in September);

- to take evidence from specific project managers (in September/October);

- to agree to Committee clerks and the budget adviser working with Executive officials on the development of an annual report on efficiency savings;

- to encourage subject committees to consider progress against efficiency savings in the appropriate portfolio during their Stage 2 scrutiny, once the annual report has been produced.

Susan Duffy
Clerk to the Committee
Finance Committee

15th meeting 2005, 25 May 2005

Efficiency Technical Notes: Supplementary Report by the Budget Adviser

Introduction

1. The constructive exchange between the Committee and the Minister for Finance and Public Sector Reform at the Committee’s meeting of 10 May 2005, and the correspondence with Executive officials now leaves the Committee with a clearer picture of how the Efficient Government process is being managed. This report draws on that information and this paper contains my considered advice on the Technical Notes to the Committee.

The Efficient Government Process

2. The objective of the Efficient Government review is to release resources from support functions for investment in frontline services to the public. The Technical Notes for each project describe how the savings will be measured, monitored and delivered. They are therefore a key source document for monitoring and reporting savings for scrutiny purposes. The Executive describes them as a working document for improvement and therefore this paper highlights issues for the Committee to consider which require addressing to ensure the scrutiny process is robust.

3. The evidence and correspondence has clarified some of the uncertainty over the process. Whilst there is a clear overlap with Gershon in terms of objectives and terminology, it is also clear that the Executive’s approach is not confined to savings within the five categories highlighted in Gershon. Indeed, some of the savings reported pre-date the Efficient Government initiative and some would certainly have arisen in the normal processes of financial management. Others in the field of procurement and shared services across individual organisations are informed by the Gershon report.

4. The original documentation on Efficient Government distinguished it from the Spending Review process, as it was concerned with releasing resources, whilst the Spending Review was concerned with targeting resources. However, although subject to different plans, in practice some of the savings were reflected in the Spending Review.

5. The Spending Review process focuses on changes at the margins to the existing baseline. Departments bid for growth in funding to meet new pressures and highlight potential savings. Thus as savings were agreed in the process, resources are released for reallocation to frontline services. As the Finance Minster acknowledged in his evidence – “the announcement did not represent the beginnings of awareness…that process should always have been happening”
6. The Efficient Government plan reports £745m of cash releasing savings by 2007-8 and the prospect of increasing this to £900m. By contrast, the Technical Notes identify £825m of savings, of which £566m are already in the budget (some of which remain uncertain) and £259m of savings (mainly from procurement) which are not reflected in the budget. The Committee may wish to clarify this apparent inconsistency with the Executive.

7. The second point is that in making savings south of the border, UK departments have also delivered savings outwith the Gershon typology. It is unfortunate that the Executive chose to claim it would go further than Gershon, then later argue that the two exercises were not comparable as a lot of time and effort has gone into examining this issue. Moreover, it is difficult to regard all of the savings offered as “efficiency” in the accounting concept of the ratio of inputs to outputs and the term “cost reduction” is more relevant.

8. Accountants tend to use efficiency as a measure of the ratio of input to output of specific programmes whereas the Executive’s approach in the main, reduces support services costs in order to improve outputs of front-line services. This is observed in Audit Scotland’s letter to the Executive. Cutting administrative/support services spending may not affect frontline services, but administrative and support services are vital elements of any organisation, their output is not always amenable to simple quantification and spending cuts may result in poorer quality of such services. The Committee will need to be vigilant in monitoring the results of such reductions.

9. From my own reading of the Technical Notes, I see a mixture of savings arising from modifications to professional practice (eg, Crown Office and Procurator Fiscal Service savings); technology (eg, Modernising Government and Efficient Government Fund savings); administrative savings (eg, CAP reform); procurement and purchasing (eg, NHS procurement/Drug Pricing) and cross-organisational savings (eg, NHS support services). The clearest example of a genuine efficiency savings is in “reducing unit costs in Community Scotland Development Programme (CSDP).

**Monitoring Savings**

10. The Convener highlighted five essential information requirements for reporting savings to the Committee.

11. These were:

- a clear summary of savings made in each budget;
- a clear identification of appropriate budgets for comparison with savings;
• a clear summary of growth in service provision facilitated by the Efficient Government savings;

• a clear explanation of how procurement savings will be monitored; and

• a summary of posts lost from the exercises

12. The information requirements flow from the need to ensure that savings do not impact adversely on services, and that these are released to frontline services as expected, not simply managed by departments to meet their own pressing problems. This needs monitoring as there is no specific information on how services will be improved and also because these savings are estimates and may differ from plans at outturn.

13. The first point appears straightforward, but the key point is that real financial savings in budget lines must occur before resources can be redistributed. For example, Technical Note H/C9 on Drug Pricing is costed at £42m, achieved through a UK-wide agreement with drug suppliers to implement a 7% price drop. This is described as being built into NHS Boards’ budgets as an automatic benefit.

14. However, in practice, the amount spent on drugs could still exceed the budget provision if the volume and mix of prescribing changes. The saving can only be released to other services if £42m less is spent on drugs. A 7% price cut reduces the unit costs but only reduces the total spend if there is no compensatory increase elsewhere. Therefore, the Committee needs to ensure that actual cash savings against a budget line are reported, not a hypothetical calculation based on lower unit costs.

15. This means that savings need to be measured against a specific Scottish Executive budget line. The Technical Notes recognise this in paragraph 1.7, that monitoring will be specific to projects rather than total spend for particular budgets which are subject to other causes of variance. That means, therefore, that the saving of £2.4m on CAP reform should be reported against an appropriate budget line, not the administration budget as a whole.

16. My view is this could be problematic for both T/C1 – Rail Franchise/Procurement and O/C2 – Scottish Water, where the savings do not appear to fall on a Scottish Budget line, and they are hypothetical in the sense it is claimed these would otherwise have fallen on the public purse. This is not said to denigrate the value of such arrangements, but these savings can only release resources if cash on existing budget lines is saved.

17. The third concern is the need to link the resources released to the growth in frontline services and in particular, to the outputs (ie, what is
purchased from the public sector with the extra resources) of those services. The Executive has already acknowledged it cannot directly link the resources released to specific service development but has asserted that when combined with the growth in funding from the Treasury, that frontline services will grow by more than 5% per annum\(^1\). According to the data on Total Managed Expenditure (TME) in the Spending Review, my calculation is that the annual real growth in spending is 3.4%\(^2\) and £745m savings is equivalent to 0.9% per annum. Therefore, the 5% figure looks like a very optimistic estimate and it would be helpful to the Committee's deliberations if the Minister for Finance and Public Sector Reform would publish the basis of that assumption.

18. The £745m figure for 2007-08 includes the £95m attributed to Scottish Water which will not result in a cash-releasing saving from its own baseline and if that is removed, the % cash-releasing savings falls to 0.7%

19. To measure the growth in service provision, in the Minister's output terms of “more teachers, more police officers and more nurses”, (Scottish Executive news release, 29/11/2004) requires the Executive to set out a clear statement for each portfolio of the outputs of that programme in the baseline year of 2004-05. We cannot rely on the targets set out in the 2004 Spending Review, as only a few of these use output measures of this kind, and many include targets of time taken to respond, or outcomes affected by external factors such as health status. In some areas, such as local government, existing targets say nothing about its outputs at all, except in the most general terms such as “building on the local environmental and local service improvements” (target 2) in which actual outputs remain unspecified.

20. For some programmes, such as housing or roads, the output will be physical, for others it will be professional staff numbers, and for others it will be transactions (e.g. grants paid). Unless the Committee receives such information, it will not be able to monitor Executive progress.

21. Fourthly, the Committee needs to ensure that procurement savings are in fact cash releasing, as they too could be reported in unit cost terms. The Committee received evidence of both comparing prices and of saving on the procurement process. We need to be sure that reducing the cost of both releases resources from procurement or administrative budgets for redistribution. The previous example could lead to time-releasing savings rather than cash unless staff costs are reduced pro-rata with the process costs.

22. This brings us neatly to the implications for jobs. On the basis of the current Efficiency Technical Notes, 695 jobs would be lost across the

\(^1\) Building a Better Scotland: Efficient Government – Securing Efficiency, Effectiveness and Productivity

\(^2\) Building a Better Scotland: Spending Proposals 2005-2008
public services funded by the Executive – a very small proportion of the total staffing at the moment (less than 0.2%). There is some uncertainty over some projects, and it would be helpful to the Committee to have the actual numbers of jobs lost reported to it in the annual report on efficiency.

**Clarifying Lines of Reporting**

23. The Efficiency Technical Notes make clear that the Executive is dependent upon a range of delivery bodies for reporting savings. The most problematic of these relate to the health, local government, and police services, and the Efficiency Technical Notes note that how savings are made are a matter for local decisions, by health boards and local authorities (and also for procurement). The Committee therefore needs to be assured that a national summary of the savings made in those areas will be made available to it by the sponsoring departments.

24. In particular, the position regarding police forces needs to be clarified. The Efficiency Technical Note suggests these will be reported through the Best Value process, yet the Executive has already made it clear that the Efficient Government Strategy is different from Best Value. To quote “The Efficient Government strategy is specifically about finding efficiencies to allow resources to be redirected to frontline services. Best Value is a broader process, about the improvement of service outcomes and business processes, looking at quality and cost. Finding recyclable savings is not the primary objective of a Best Value review, although it may be a welcome side-effect” (Scottish Executive (2004) Efficient Government Q & A)

25. This suggests that relying on the annual Best Value report will not suffice. Savings may be made outwith Best Value studies, and the Committee needs clear reporting over how savings were made. That requires a specific Efficient Government report that is fit for purpose.

**Outstanding Questions on Specific Projects**

26. The Efficient Government team produced a detailed response to some forty seven questions from the Committee regarding the Technical Notes. A few of these require further clarification, and these are set out below.

EYP/C3 The Executive’s reply states that robust plans for saving £9.8m are now being drawn up. If this is the case, how was the estimated saving calculated?

ELL/C1 The Executive’s reply states that the total budget for Scottish Enterprise remains unchanged, but that the saving is reallocated with Scottish Enterprise’s own budget. This differs from the approach used in ERAD’s agencies, all of whom report similar practice as not being built into the budget. This should be standardised so question 12.3
refers to the relevant Scottish budget line (ie, “yes” implies there has been a reduction to the relevant budget line).

FPSR LG/C1 In 14.3, the note states that “if the decision is taken that these savings are to be monitored the information will need to be supplied by individual local authorities”. How else can these savings be audited properly?

FPSR LG/C3 If these savings have not yet been identified how was the target of £8m calculated?

FPSR LG/C5 – Does this saving materialise within local government budgets rather than the line for these funds?

H/C4 Is this a real cash reduction or a hypothetical saving based on calculations in comparison with previous spend?

J/C4 Is this a real cash reduction on the budget line for Legal Aid, or a hypothetical calculation derived from unit costs?

T/C1 Is this a cash saving off a line in the Scottish Budget?

IO/C2 Is this a cash saving off Scottish Water’s borrowing facility in the Scottish Budget, or simply off its operational budget?

Conclusions
27. This report has set out an overview of the Efficient Government process, identified problems of monitoring savings, highlighted issues in establishing clear lines of reporting, and raised questions over specific projects. It sets out the information required to allow robust scrutiny of the Executive’s performance over efficiency. The Committee is invited to consider whether it wishes to raise these matters directly with the Executive, and to advise me of any other questions or concerns members may have.

Professor Arthur Midwinter
Budget Adviser
Finance Committee

15th meeting 2005, 24 May 2005

Health Committee Post-Legislative Scrutiny of the Regulation of Care (Scotland) Act 2001 and the Community Care and Health (Scotland) Act 2002

Background

1. At its Away Day in August 2005, the Committee agreed to investigate working with the Health Committee in its post-legislative scrutiny of the above acts. Subsequently, the Committee indicated that a reporter could be appointed to the Health Committee to bring forward the views of the Finance Committee, in relation to the costs of the legislation as compared with the costs set out in the original Financial Memoranda.

2. The Health Committee launched a call for evidence on 17 May and will begin its inquiry proper in September this year and will possibly hold an event to launch the inquiry.

Role of Finance Committee Reporter

3. The reporter would act as a link between the Finance and Health Committees and the suggested remit would be:

4. “to attend meetings of the Health Committee to participate in its post-legislative scrutiny of the Regulation of Care (Scotland) Act 2001 and the Community Care and Health (Scotland) Act 2002, to report back to the Finance Committee at regular intervals and to seek the views of the Finance Committee and represent these at the Health Committee as appropriate. The reporter would also attend the Health Committee event to launch the inquiry”

5. To minimise the work for the reporter, it is anticipated that such reports back would be verbal.

Suggested approach

6. As the Finance Committee’s interest is in the cost of legislation, it is suggested that as a first step, some research could be undertaken to try and compare the actual costs of implementation with the predicted costs. The Finance Committee clerks and SPICe would undertake to provide support in drawing together this comparison and initial work could be undertaken during the summer recess.

7. This could then be presented to the Finance Committee early in September so that the Committee can identify the issues that it would like the reporter to contribute to the Health Committee inquiry.
**Conclusion**

8. The Committee is invited to nominate a reporter to the Health Committee and to agree the remit as outlined above.

Susan Duffy  
Clerk to the Committee