FINANCE COMMITTEE

AGENDA

21st Meeting, 2005 (Session 2)

Tuesday 27 September 2005

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

1. **Efficient Government:** The Committee will take evidence on the Executive’s Efficient Government Initiative from—

   Tom McCabe MSP, Minister for Finance and Public Reform; and
   Peter Russell, Head of Efficient Government Delivery Group, Scottish Executive.

2. **Performance Monitoring:** The Committee will take evidence from –

   John Elvidge, Permanent Secretary, Scottish Executive.

3. **Financial Memoranda:** The Committee will consider its approach to the Financial Memoranda for forthcoming Bills.


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

**Agenda Item 1**

Briefing paper from the Budget Adviser

Correspondence from Audit Scotland to the Scottish Executive

*Efficiency Technical Notes September 2005* (previously circulated to members in hard copy only; electronic versions available via Scottish Executive website)

PRIVATE PAPER

**Agenda Item 2**

Correspondence from the Permanent Secretary

PRIVATE PAPER

**Agenda Item 4**

PRIVATE PAPER
Finance Committee

21st Meeting 2005 – 27 September 2005

Briefing Note on Revised Efficiency Technical Notes – September 2005

1. This second set of Efficiency Technical Notes (ETNs) updates some of the cash-releasing technical notes, and includes the first set of time-releasing ETNs plus any additional cash-releasing ETNs. Together these form a complete set of ETNs as at August 2005 which form the basis for monitoring and assessment of programmes.

2. The report states that the findings of Audit Scotland regarding the first set of technical notes were taken into account prior to this publication. The Finance Minister on publishing the document stated that the Executive “will only publish targets and figures when we are convinced they are robust and deliverable” (Scottish Executive News Release 8 September 2005)

3. The report records a combined total of £1249.8m of efficiency savings, comprised of: £812.9m of cash-releasing savings in the Departmental Expenditure Limit (DEL); a further £99.46m of cash-releasing savings in Total Managed Expenditure (TME); and £337.5m of time-releasing savings. The major change in the cash-releasing element is the increase of £118m in the project on NHS efficiency. This is equivalent to 3.3% of the current baseline budget.

4. Whilst a number of cash-releasing ETNs have been revised, most of them reflect either adjustments to the savings targets or further information regarding arrangements for monitoring and reporting of delivery. Whilst these clarifications are helpful, the major concern is the absence of fundamental revisions to address the concerns raised by the Committee and Audit Scotland over gaps in the May document.

5. Caroline Gardner’s letter of 10 May reported that their comments were intended to identify ways in which the notes require to be developed to provide a robust basis for monitoring the delivery of savings. These weaknesses included inadequate specification of savings; lack of output data to demonstrate efficiency improvements; and the need for more information to remove the uncertainty about how the savings will be realised. These concerns were repeated to the Committee in Audit Scotland’s letter of 10 August and concern further expressed over lack of baseline measures.

6. By contrast, Audit Scotland reported that some of their concerns have been addressed in the time-releasing ETNs, in terms of transparency of calculations, risk disclosure and monitoring. However, the letter also contains a health warning that “time-reporting systems” are rarely in place “or well developed” in the public sector to allow robust monitoring and measurement.
7. There are 25 Time Releasing ETNs, but five of these (C/T3, 4 and 5; and COPFS T1 and 2) are for similar sums of savings and no detail is given. Of the remaining twenty ETNs, a few projects eg, prison escorting and court custody savings (J/T8) and digital x-rays (H/T9) are particularly good examples of where the specification of savings, costings and delivery are transparent.

8. By contrast, there are a number of projects where the method of costings and efficiency gains are either not laid out or the basis of the financial assumptions are not clear. These include school building programme (EYP/T3), FE and HE pooling of resources (ELL/C3 and T1); Scottish Enterprise Business Transformation Programme (ELL/T3); ERAD science programme (ERD/T1); Increasing consultants productivity (H/T2); time releasing efficiency savings in the police service (J/T9); and management and maintenance of the trunk road network (T/T1).

9. In a number of cases, savings will be delivered by capital investment, by transferring aspects of professional workloads to less qualified and less costly personnel, or by altering staff performance. In the case of the latter, it is not clear how such gains will be delivered (eg, sickness absence in the NHS) and in a few cases, some of the projects appear to expect cash savings to materialise (eg, sickness absence and Scottish primary care collaboration).

Conclusions

10. The revised and expanded Technical Notes remain inadequate as a basis for monitoring efficiency improvements. They place a much greater emphasis on costing savings than measuring outputs in the case of cash-releasing savings. Time releasing savings are more difficult to cost, the financial data used is of limited relevance and the time taken to monitor them could be disproportionate to the limited benefits from such monitoring.

11. From a financial perspective, there is a strong case for the Committee focussing its efforts on monitoring financial information and assessing financial performance, rather than the time-releasing exercise. In particular, this requires:

- Monitoring the delivery of savings where funding has been retained in portfolios, and pursuing information on its reallocation within them; and

- Monitoring the impact of the savings where the cash has already been reallocated within the Scottish budget. This is of particular importance in the case of the budget reductions made for the basis of assumed savings by health and local government. This Committee may wish to ensure that these reductions have not
led to service reductions, or council tax increases in the case of local government.

12. This can be done through the assessment of the Executive’s annual report on the Efficient Government initiative and through scrutiny of the Budget revisions throughout the year.
Dear Peter

Efficient Government Plan: time releasing savings - efficiency technical notes

Thank you for your letter of 10 March inviting Audit Scotland to comment on the adequacy of the Efficiency Technical Notes as a basis for the Scottish Executive to monitor the realisation of savings contained in the Efficient Government Plan. We commented on the adequacy of Technical Notes for cash-releasing savings in our letter dated 10 May 2005, this letter outlines our findings in relation to Technical Notes covering time-releasing savings.

Audit Scotland is a statutory, independent body that provides services to the Auditor General and the Accounts Commission. Together we help to ensure that organisations spending public money in Scotland use it properly, efficiently and effectively. We therefore welcome the Efficient Government Initiative’s focus on continuous improvement and greater efficiency in the delivery of public services.

Audit Scotland received twenty-one Technical Notes from the Executive in four batches between 17 June 2005 and 15 July 2005. These Notes covered time-releasing efficiency savings of some £317 million. A summary of the Notes covered by our review is included as an appendix to this letter. We understand that the Executive continues to identify further cash and time-releasing savings which will be supported by Technical Notes in due course. These additional savings have not been covered by our review.

Technical Notes continue to be working documents subject to continuous development as projects progress and are not, therefore, intended to be a complete record of all aspects of each project. The Executive intends that the implementation of each project will be supported by appropriate delivery planning documentation. Our comments are intended to highlight ways in which the process requires to be developed as a robust basis for monitoring the delivery of savings.

Efficiency savings arise from activities that improve the ratio of outputs to resource inputs in broadly two ways:

- by producing the same outputs with fewer inputs; or
- by producing more or better outputs from the same inputs.
Time-releasing savings tend to emerge from the automation of manual work practices, workforce reform or process re-design. The processes which give rise to time-releasing savings are, therefore, often complex and we acknowledge that it can be difficult and costly to develop mechanisms for monitoring and measuring such savings effectively.

Our review has found that the Executive has incorporated improvements in the Technical Notes for time-releasing savings following our review of similar Notes for cash-releasing savings and as part of its own ongoing development programme. We noted in particular that:

- the methodology for savings calculations is more transparent in many of the Notes;
- the analysis and disclosure of key risks has been improved in many cases; and
- the analysis of how savings will be made and monitored is generally more transparent.

Overall, however, the Efficiency Technical Notes for time-releasing savings will not, on their own, provide all the information necessary for monitoring and measuring the achievement of savings. Our review identified that further work is required to develop the delivery management processes in following key areas:

**Measurement**

- The measurement of time-releasing savings requires adequate systems to be in place to capture and measure baselines, transaction costs and productivity outcomes. In the public sector these systems (for example, time recording systems which capture how public sector employees, such as nurses, teachers or social workers, currently allocate their time between administrative, planning and front line services tasks) are rarely in place or well developed. This represents a significant challenge to effective monitoring and measurement of the claimed savings.

- More information is needed to remove the uncertainty about how and where some of the targeted gains will be realised (this is recognised, for example, in the Note covering the projected savings of £40m from further and higher education).

**Methodology**

- In the absence of established business metrics and management information systems, some Technical Notes adopt ‘proxy’ measures for assessing savings. This approach will necessarily be more open to challenge and interpretation.

- The Technical Notes incorporate a range of assumptions with regard to existing baseline data, the causal relationships between inputs and outputs and the productivity of resources notionally ‘released’ from administrative to ‘front-line service’ tasks. These assumptions are often untested.

- In many cases where time-releasing savings accrue from process re-design or advances in technology which enable ‘smarter working’ and automate manual tasks. These savings often result from significant programmes of capital investment, require the employment of additional staff (such as classroom assistants) or require significant investment in re-training to enable workforce reform. It is not always clear, however, whether such development costs are offset from identified savings. The Executive has indicated that it will revise the Technical Notes prior to publication to address this issue.
• Savings calculations assume that all time notionally released for other tasks will be 100% productive when re-allocated. This assumption has not been tested.

• It is our view that savings from SEPA (£2.1m) and Transport (£5.0m) currently classified as ‘time-releasing’ within Technical Notes should be re-classified as cash-releasing savings.

Eligibility
• Many Technical Notes incorporate savings emerging from initiatives started in advance of the Efficient Government Plan (for example, savings accruing from contracting out prison escort and court custody duties). The Executive has provided an assurance that the baseline from which such savings count towards meeting targets in the Efficient Government Plan continues to be 1 April 2005. The Executive has indicated that they will confirm this in the relevant Technical Notes that are published.

We note that delivery of some significant efficiency gains continues to depend on third parties who may themselves face delivery and measurement challenges and we would expect appropriate risk assessments of specified savings, and the impact on services, to be included in the management of delivery.

From our continuing exchanges, we know that the Executive is aware of the many of issues we have identified. The Executive has confirmed its commitment to ongoing development of the Technical Notes, and other delivery planning documentation, to address the improvement issues identified from our review.

I hope these comments are useful in guiding the further development of Efficiency Technical Notes so that they provide a robust basis for the Executive to monitor the achievement of its savings targets; please let me know if you would like to discuss them further. We look forward to continuing to work with the Executive, through our normal audit processes, as the monitoring and governance arrangements are developed.

Yours sincerely

Caroline Gardner
Deputy Auditor General
cgardner@audit-scotland.gov.uk
### Analysis of Time-Releasing Savings Submitted for Review

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<th>Name of Project and Identifier</th>
<th>Identified Savings</th>
<th>2005-06 £m</th>
<th>2006-07 £m</th>
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<td>188.4</td>
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Dear Mr McNulty

Thank you for your letter of 9 June inviting my views on the presentation provided to the Committee on 17 May by Professor Sir Michael Barber, then Head of the Prime Minister’s Delivery Unit, and seeking information about the work of the Scottish Executive Strategy and Delivery Unit.

I am pleased to provide further evidence to the Committee on these matters. I attach a brief written submission on the specific issues raised in your letter. I am happy for this to be published and to provide further oral evidence to the Committee in the autumn if that would be helpful.

Yours sincerely

JOHN ELVIDGE
1. The Finance Committee has requested further evidence following Professor Sir Michael Barber’s presentation to it on 17 May 2005.

2. It has asked for my views on Sir Michael’s presentation slides and the Official Report from the meeting. It has also asked what lessons from the Prime Minister’s Delivery Unit could be transferred here, and what the Executive’s Strategy and Delivery Unit would do differently in order to deliver similar results.

3. We are fully aware of the work of the Prime Minister’s Delivery Unit. I heard a similar presentation from Sir Michael at a meeting of the Civil Service Management Board last year. The Head of the Executive’s Strategy and Delivery Unit, Sarah Smith, has shadowed Sir Michael in his work. Members of the Strategy and Delivery Unit have visited Whitehall to review in more detail the approach of the Prime Minister’s Delivery Unit and to share with them our approach to delivery in Scotland; this liaison is continuing.

4. The Prime Minister’s Delivery Unit has evolved its approach since it was first established at the request of the Prime Minister in 2001. The approach described by Sir Michael is impressive. Clearly, the Unit focuses a high level of resources on a very limited number of agreed priorities and applies strong analytical and problem-solving skills to support Departments’ delivery.

5. It would not be appropriate, nor practicable, to transfer in its entirety an approach of supporting delivery of just 21 targets across four Departments to the Scottish context. The 21 Delivery Unit targets sit within the context of the much larger Public Service Agreement framework – which includes 110 targets across all UK Departments, specific to the policy commitments of the UK Government. Sir Michael himself acknowledged that one of the disadvantages of supporting a restricted number of priorities means that other targets which are not priorities get less attention. He also recognised the importance of tailoring approaches to particular targets.

6. As the Committee would expect, Scottish Executive Ministers are committed to delivery across the full range of their commitments set out in the Partnership Agreement. Our approach to supporting delivery reflects this, but also that specific policy commitments will require more intensive monitoring and support at different times during the delivery process. Our approach does not exclude particular commitments from this support, if required.

Scottish Executive Strategy and Delivery Unit

7. The Convener of the Finance Committee asked specifically about the work of the Executive’s Strategy and Delivery Unit. The Strategy and Delivery Unit supports continuous improvement in the implementation and delivery of policy and provides medium and long-term thinking to support strategic policy development across the Executive. The delivery side of the Strategy and Delivery Unit provides an important component of support for delivery in the Executive.
8. Each Cabinet Minister in the Scottish Executive is responsible for delivery within his or her portfolio. Departments support Ministers in this and ensure that business plans and personal objectives provide an effective framework for delivery. One of the key developments in the work of the Scottish Executive since devolution has been the increased emphasis on evidence-based policy making across Executive Departments. This has been supported by new performance systems within Departments, linking policy commitments to delivery outcomes. The performance framework associated with the National Priorities for Education and the Closing the Opportunity Gap Targets are examples of this approach.

9. The Minister for Finance and Public Service Reform has responsibility, on Cabinet’s behalf, to monitor and support delivery. Mr McCabe reports to Cabinet twice a year on progress on the Partnership Agreement. He also holds regular bilateral meetings with individual portfolio Ministers to discuss delivery challenges in each portfolio. The Strategy and Delivery Unit assist Mr McCabe in this area.

10. I chair a delivery group of senior officials, the Management Group Delivery Sub-Group, which meets regularly to consider in some depth the challenges facing the teams responsible for leading delivery of particular Partnership Agreement commitments. The Delivery Sub-Group focuses on the effective delivery of those commitments in the Partnership Agreement which are central to Ministers’ priorities and difficult to deliver, and/or are critical to achieving the Scotland Ministers want to see in the longer term. The Delivery Sub-Group’s work is supported by the Strategy and Delivery Unit.

11. The Cabinet report on delivery, the Ministerial meetings and the Delivery Sub-Group are all underpinned by a monitoring system employed across the Executive and in some agencies to identify progress, risk and action being taken on each of the Partnership Agreement commitments. The data is updated continuously. It feeds into the high level arrangements for risk management and overall performance management which the Management Group use. As well as supporting Ministers and senior management in monitoring delivery, the system also provides a clear framework for the Strategy and Delivery Unit and other officials to take stock of progress.

12. The Strategy and Delivery Unit works closely with analytical experts across the Executive on delivery. For example, Analytical Services have an important role to play in auditing delivery risks relating to a number of Partnership Agreement commitments. The Minister for Finance and Public Services Reform reports the results of this audit as part of his regular report to Cabinet on delivery.

13. The former Policy Unit (renamed the Strategy and Delivery Unit in 2003) coordinated the preparation of Recording our Achievements in December 2002 which set out publicly the Executive’s achievements in the last Parliamentary term. The Executive is committed to publishing an equivalent document at the end of the current Parliamentary term and we will be starting work on this towards the end of next year.

14. We have sought to adapt those aspects of the Prime Minister Delivery Unit’s approach which are most relevant to the Scottish context. For example, the twice-yearly report to Cabinet, Ministerial bilateral meetings, the MG Delivery Sub-Group and Efficient Government monitoring are all informed by the approach of the Prime Minister’s Delivery Unit.
15. Like the Prime Minister’s Delivery Unit, we have refined the Executive’s approach to supporting delivery and continue to consider further improvements in the way the Executive supports delivery. Officials in the Executive’s Strategy and Delivery Unit continue to liaise with the Prime Minister’s Delivery Unit and other similar units in other countries to share good practice.

16. While we take a different approach to the process of monitoring and supporting delivery, it is important to note that outcomes in Scotland are, in many cases, as good as or better than in England.

17. For example, every NHS Board in Scotland has seen significant improvements in waiting times. We are now doing substantially better than England in respect of waiting times for inpatients and day case waiting times. Latest data indicates that 31.5 of every 100,000 population waited over six months in Scotland, compared to 83 in England. While no one in Scotland had to wait over nine months, almost one person in every 100,000 in England did so. Our median waiting time for inpatients and day cases is also better: 50 days in Scotland compared with 60 days in England. (Data as at March 2005.)

18. It is also important to acknowledge differences in methodology and context between Scotland and England. Figures published by the Office of National Statistics show that crime detection / clear-up rates in Scotland are significantly better than those for England and Wales - 43% compared with 25% for all notifiable offences – and particularly for specific types of offences such as violent crime, burglary and car crime. However, we recognise that, at least in part, the scale of the difference may reflect different recording methods and the different balance between large city and other communities in Scotland compared with England.

Efficient Government


20. The Efficient Government Delivery Group’s assessments are carried out using information provided by the relevant project managers, supplemented by structured discussions between the Efficient Government Delivery Group and the project managers. For savings from local government, the Efficient Government Delivery Group is working with COSLA and the Improvement Service to develop rigorous monitoring processes which make use of existing documentation to minimise the administrative burden on individual local authorities.

Conclusion

21. In conclusion, we recognise the value of engaging with the Prime Minister’s Delivery Unit and other relevant contacts to share experience in monitoring and supporting the delivery of Minister’s key policy commitments. That engagement is reflected in the performance systems we have established within the Scottish Executive and our Strategy and Delivery Unit is continuing the process of dialogue. However, it is also important that we
ensure that our performance systems reflect the specific context of devolved government. In particular, our systems ensure the early involvement of the Scottish Executive Management Group in identifying and responding to individual delivery challenges and the corporate, cross-portfolio approach that Scottish Ministers take to ensuring progress across the full range of their policy commitments.

John Elvidge
Permanent Secretary
5 August 2005