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

1. **Review of Scottish Executive Management of Public Finances**: The Committee will consider a paper from its budget adviser.

2. **Accountability and Governance inquiry (in private)**: The Committee will consider its draft report on its Accountability and Governance inquiry.

3. **Adult Support and Protection (Scotland) Bill (in private)**: The Committee will consider its draft report on the Financial Memorandum of the Adult Support and Protection (Scotland) Bill.

Susan Duffy  
Clerk to the Committee  
Room T3.60  
Extn 85215
The papers for this meeting are:

**Agenda Item 1**

Paper from the budget adviser  

**Agenda Item 2**

Supplementary evidence from:  
- Scottish Parliamentary Corporate Body; and  
- Permanent Secretary, Scottish Executive.

PRIVATE PAPER

**Agenda Item 3**

PRIVATE PAPER
Finance Committee

20th Meeting 2006, Tuesday 5 September 2006

The Executive Management of the Public Finances

1. The Committee has previously considered two background papers on Pre-Expenditure Assessments and Best Value reviews within the Scottish Executive produced by its Budget Adviser. As agreed, the Budget Adviser has now produced a report which incorporates the themes in those papers and this is attached.

2. At its meeting on 20 June 2006, the Committee agreed that the Convener should write to the Executive asking for details of how it is monitoring Best Value within its departments. The Convener’s letter to the Permanent Secretary is attached, as is the Permanent Secretary’s response.

Susan Duffy
Clerk to the Committee
The Executive Management of the Public Finances: A Background Paper by the Budget Adviser

Background
1. This report provides background information for the Committee’s examination of the economic impact of the Scottish Budget. It is drawn largely from Executive documentation regarding these matters which are in the public domain.

2. The Scottish Budget contributes to economic growth in two ways. Firstly, its expenditure programmes can promote economic growth directly, (e.g. the enterprise agencies) or it can support economic growth indirectly (e.g. through spending on infrastructure). The Executive’s functions are microeconomic, but the strategy set out in FEDS is consistent with the UK Government strategy of promoting macroeconomic stability through the fiscal framework, investing in frontline services which support the economy, and improving the productivity of the public sector, which accounts for over 20% of GDP.

3. In FEDS, the Executive reports that ‘growing the economy is our top priority’. Whilst in earlier Spending Review exercises, economic objectives were always present within the framework of priorities (e.g. creating competitive economy/strengthening the economy), Spending Review 2004 was the first such exercise in which growing the economy was made the top priority, with sub-objectives in FEDS such as closing the opportunity gap/sustainable development also highlighted as key crosscutting themes.

4. FEDS identifies the management of public finances as one of the five drivers of economic growth, and several of its mechanisms for this purpose fall within the Committee’s remit to examine information used for resource allocation decisions in the Scottish Budget. Three of these – Pre-Expenditure Assessments; Best Value Reviews; and Efficient Government; provide important insights into the appraisal and evaluation of expenditure by the Executive.

5. The Executive’s overall strategy in managing the public finances is set out in some detail in Chapter Five of its Background Analysis for FEDS document. This states that there are several elements in place to ensure that public sector activity is both catalytic in its impact and subject to very rigorous analysis to ensure that it does provide ‘the most appropriate level of support’ (p27). However, this implies a greater degree of precision than is possible in resource allocation in Government.

6. In terms of public sector productivity, the Executive observes that:

“… the key framework for spending is the Spending Review. For each aspect of government presented in the Spending Review, high level aims and objectives explicitly set out the policy goals that the Executive is pursing. Linked to this is a set of targets which set out the desired results of the spending. The financial and performance regime should
increase the efficiency of our spending, enhance the way we report our finances and performance to the public, and ensure that our spending has maximum impact in meeting our priorities." (p28)

7. The Committee’s earlier scrutiny of priority setting, resource allocation and performance targets has shown that the links between these dimensions of the budget process are blurred in practice. Research for the Committee by Peter Wood concluded that economic growth did not appear to be given budget priority, and monitoring overall performance was hampered by the absence of a strategic target for growing the economy.

8. FEDS also sets out five principles for the management of public spending. These are:
   - “Pre-Appraising Expenditure – we must be clear before we take any decisions what the resources will buy and when;
   - Identifying Delivery Mechanisms – we must examine how these resources will deliver the required output;
   - Identifying the Benefits – we must clearly specify what benefits the improved service delivery will bring;
   - Measuring the Benefits – we must measure and assess the benefits
   - Monitoring Delivery – we must establish key milestones and ensure that final delivery is achieved.”

9. The Executive is committed to improving the degree of rigour with which resources are allocated to meet its priorities (p29). The Committee is aware from its ongoing scrutiny of these issues that this is difficult to achieve in practice and so the comments made in this document are an attempt to improve the process.

10. Problems of measuring government output have been recognised by the UK Government and with their implications for the present review, merit summarising. The Treasury (2003) argues that measuring the productivity of public services is difficult. In the past, there has been too much emphasis on resource inputs rather than specified results. Progress requires ‘clear long-term goals expressed as desired outcomes’, and ‘improved information about performance’ (summary). This will provide the basis for raising public sector productivity, and will assist in raising the productivity for the economy as a whole.

11. The investment in public sector services since 1997 is intended to ‘deliver more and better outputs’ – and to maximise outcomes such as better health and literacy. Whereas private sector output is conveniently measured by market prices, this is not the case for public services. Moreover,

   “… a further complication is the distinction between outputs and outcomes. Public service performance is ideally measured in terms of outcomes, since these are the primary concerns of citizens, but it is often hard to identify to what extent these are caused by the services’ outputs as compared with other external factors” (p2).
12. The conventional approach for measuring output in the National Accounts was to assume that increased expenditure resulted in an identical increase in public sector output. The current attempts to reform the process and practice following the Atkinson Review are driven by the UK Government’s view that public service performance should be assessed through outcome measures. This is reflected in three key insights in the framework on raising public sector productivity.

13. These are:

- **Objectives** must be specified to ensure that providers are clear about their strategic direction and can identify their priorities correctly. They also provide a benchmark for performance assessment;

- **Incentives** for public service providers are necessary to ensure they pursue their objectives. Well-designed incentive systems recognise the ethos that motivates public sector employees, reward success, and expose poor performance so that it can be addressed;

- **Information** is required for objectives to be established and for incentive systems to be designed. Performance also needs to be monitored so that service providers can be rewarded or sanctioned accordingly, while local communities are entitled to clear information about the performance of their public services.” (p21)

14. The UK Government’s approach of setting clear objectives, priorities and targets is contained within departmental Public Service Agreements, in which Ministers sign up to deliver agreed outcomes in return for additional resources. The Treasury’s view is that PSAs increase public sector accountability by linking resources to results.

15. A diagram from the Technical Annex to this document is shown below. It provides a succinct rationale for the process on central funding allocations into resources. The text argues that:

> “Initial budgets are used by service providers to purchase labour and capital inputs, for example doctors, hospital buildings and medical equipment. These inputs in turn, are used to produce outputs, which are the services they actually provide to the public, such as hospital operations and GP consultations. These outputs together with external factors that are outside the influence of public service providers, such as people’s lifestyles, then determine the outcomes that are achieved. Improved performance may be possible at each stage of this process, thereby raising the overall productivity of a public service.” (p39)
16. The Committee has already acknowledged these constraints on outcome measures and the problem of linking resources to results. It is not clear that the analytical techniques available to the Executive can fully measure outputs in the Treasury terms, let alone outcomes. Measuring economic output for GDP indicators is beyond the concern of this review, but it does raise a real problem of how the Committee can be assured that growing the economy is treated as the top priority in budget making if there are problems in measuring it in a meaningful way, problems of defining and measuring spending which supports economic growth, and problems of monitoring performance on these terms in the absence of a performance target for growth.

17. In this review, the Committee’s concern is to be assured that growth in public sector output can be measured accurately so it can assess Executive performance in the management of the public finances. The Executive is collaborating with the ONS, as one-third of the Atkinson Review’s recommendations require joint work between them. This Committee’s concern with performance management goes beyond the Atkinson concerns with measuring economic output, but the conceptual problems are very similar, particularly with the objective that output growth should take account of quality change. Progress is continuing and modifications to the measurement of Scottish GDP may follow.

18. In its response to Atkinson, the Executive linked its work to its own reforms to the management of public finances, such as Best Value and Efficient Government, because:

“Existing tools do not fully capture all the aspects of public productivity, including the relationship between inputs and outputs, which are necessary to demonstrate whether Best Value and Efficient Government are making a real difference to the overall quality and effectiveness of public services. While the implementation of this strategy will not deliver a complete tool kit for the management and audit of government activities, it will help to establish the wider economic context for the interpretation of other performance indicators. Better data on output and productivity that follow will be comprehensive in their coverage and
consistent over time, and will complement existing measures of public sector performance. Scottish Ministers are strongly committed to efficiency gains which are clear and accountable – and they must therefore be measurable. Consideration of the outcomes of the Efficient Government Initiative and Best Value Audits, alongside the outputs of this strategy, will help to deepen our understanding of public sector activity in a comprehensive way”. (Scottish Executive 2005, pp4&5)

19. The principles of the Atkinson Review are attached as Annex 1. At this stage, it should be clear that there are significant conceptual difficulties in this task, particularly seeking comparability for a private and public sectors. For our concern with financial and performance management, the evidence given to the Committee by the Permanent Secretary that “we have evidence on almost every output that can be measured” and that “I am not conscious of any key outcome that we do not measure” suggests that some basis for progress exists.

Pre-Expenditure Assessments (PEAs)
20. Pre-Expenditure Assessments were introduced after the 2003 Partnership Agreement as a mechanism whereby all new spending commitments would be evaluated for their economic, environmental and social impact, and value for money. They therefore contribute to the objective in FEDS to improve the degree of rigour with which resources are allocated through prioritisation.

21. FEDS states that:

“... objective assessment of the likely economic, environmental and social impacts of policies and projects is a fundamental aspect of evidence-based policy-making. These commitments should help to ensure that policies and projects are well-designed, meet their objectives, and represent good value for money” (p29).

22. PEAs are based on the principles and techniques outlined in the Treasury Green Book on Appraisal and Evaluation, but are more modest in scope. The Green Book highlights IT issues for consideration in assessments (these are represented in the Annex 2). The PEA framework focuses on aims and objectives, options, the evidence base, financial and management arrangements, and monitoring and evaluation.

23. Further guidance on PEAs is provided in the Executive’s Scottish Public Finance Manual (SPFM). It stresses that:

- Appraisal and evaluation are essential parts of good financial management. The general principles should apply to any proposal – whether project, programme or policy related – with expenditure implications.
- The effort that should go into appraisals and evaluation and the detail to be considered is a matter of judgement.
- Appraisal involves PEAs, which must be undertaken for any proposal with significant resources implications.
24. Indeed, the limits to the approach are acknowledged in the SPFM. It states that, “the analysis will not always point to a clear-cut recommendation. There may be risks and uncertainties attached to costs, benefits or both. There may be significant elements that cannot be easily quantified in monetary terms. For each option, the impact of all relevant factors and related risks and uncertainties should be set out systematically and an assessment made of where the balance of advantage lies”. (para.9)

25. The problem of uncertainty in the exercise is further confirmed by the formal requirement for evaluation (if we had perfect information, we could take objectively correct decisions). This requires the assessment of the outturn of the proposal against its objectives, leading to results and recommendations which should be published in the public domain.

26. PEAs however, are not published but form part of the information base on which expenditure decisions are taken by Ministers, rather than as a specific appraisal which leads to a specific project with a specific outcome. Moreover, ownership of PEAs lies with the policy team developing the specific policy and it is not clear when/or if they do influence budget allocations between portfolios, rather than allocation within portfolios.

27. The comments which follow are general observations on the format and methodology rather than the detail of specific PEAs.

28. From a scrutiny perspective, the key concerns are that the PEA is based on realistic assumptions, robust information and rigorous assessment. This requires a firm evidence base for analysis of the social and economic impacts and value for money. From the limited documentation it is difficult to reach firm conclusions about the benefits of this model of decision-making.

29. Most of the options considered for achieving objectives tend to be in the form of adjustments to existing programmes rather than new mechanisms.

30. In general, most PEAs refer to low-cost proposals (ie less than £10m). This makes limited analysis defensible, and PEAs rely on as much on professional judgement as policy analysis in setting out the case for the proposal. It has been agreed that PEA will be required of departments for:

- All significant capital projects
- Significant new resource spending proposals
- Major new spending proposals in future Spending Reviews

31. The guidance states that for relatively small proposals, basic assessments of the evidence base may suffice. But it is not clear how decisions to increase provision within block grants to local authorities or health boards are dealt with.

32. There is little doubt that PEAs provide useful information for Ministers. Their impact on the efficiency and effectiveness of spending, however, is unclear.
33. As a result, PEAs appear to be more useful as tools which inform resource allocation and performance management within the Executive, than as mechanisms to promote productivity in economic performance. It cannot just be assumed that ‘better decisions’ results in better economic performance.

**Best Value**

34. Best Value Reviews (BVRs) came to the Committee’s attention in the 2004 Spending Review. At that time, a target of completing a rolling programme of BVRs covering all areas of departmental activity by 2006 was set. In the Committee’s budget report for 2004-5, the Committee recommended that all such reviews should be reported to Parliament, and the Executive undertook to consider this proposal.

35. This target was removed from the Draft Budget following Spending Review 2004, but the commitment to complete the programme of reviews remained. At its budget meeting Elgin in November 2005, the Committee asked the Finance Minister for information on progress with the Reviews. He responded in a letter to the Convener, dated 6 December 2005. It stated that:

“The Executive’s programme of Best Value Reviews is continuing and is on course. A total of 105 Best Value Reviews were scheduled to take place over the three year period from 2003 to 2006. To date, 49% or 51 Reviews have been completed. Five Reviews have been superseded by other departmental activities, and the remainder are currently underway.

The focus of these Best Value Reviews has been on considering options for improving performance and for finding the most efficient and effective ways of delivering core business. Not all reviews have resulted in savings, and for those that have, the costs involved have in most cases not been quantified. Other benefits generated by the programme of reviews completed so far include changes to business processes and organisational structures designed to improve levels of performance, rationalisation of funding streams; and the development of systems for streamlining the collection of information.”

36. At the commencement of this review I sought further information regarding this programme. I was advised that departments are largely on track with their BVRs, although there may have been alterations to their programmes as circumstances and priorities changed. The Executive has also confirmed that it does not intend to retrospectively publish the reports of all the Best Value Reviews, which are seen as management reports largely for internal consumption.

37. Accountable Officers have a duty to secure best Value, which is essentially to secure continuous improvement in the performance of their functions, and through principles of good governance (see Annex: Initial Guidance to Accountable Officers in the SPFM, which sets out the characteristics of an organisation that wants to secure Best Value).

38. This duty includes:
• Making arrangements that secure Best Value;
• Continuous improvement in organisational performance of functions;
• Maintaining a balance between cost, quality and value for money, and observing the requirements of equal opportunities and sustainable development; and
• Reporting outcomes to the public.

39. Good Governance is described as:
• A framework for planning and budgeting that includes detailed and realistic plans linked to available resources;
• Effective performance management systems, which include the use of external comparison;
• Best use of public resources (staff/ICT/and property/finance)
• Use of review and option appraisal

Members will recognise that some of these elements are to be found in the Scottish Budget whilst others are elements of internal management.

40. The origins of Best Value are in the development of an alternative to Compulsory Competitive Tendering in local government, focussing on the use of market testing/benchmarking and other forms of comparison as alternatives to rigid competition. Authorities were required to develop performance management systems and to carry out Best Value Reviews. These have now been incorporated into Best Value and Community Planning Duties.

41. As the initial guidance in Best Value notes, Best Value Reviews provide a basis for a critical and rigorous evaluation of service provision, through the framework of the Four Cs, these are:

- Challenges:- is this service still required at all? If so, in which form?
- Consults:- with the public and key players in a service
- Compares:- with other organisations and/or private and voluntary sectors
- Competes:- through evidence of competitiveness e.g. market testing.

42. From the documents I have seen in Best Value Reviews, I have no doubt the process generates helpful information to strengthen the evidence base of decisions. It is not clear however, that the “Four Cs” were systematically applied in Best Value Reviews.

43. The revised guidance in 2005-06 removed reference to the “Four Cs” and states that it does not specify “process” but leaves it to departments to determine how they deliver “continuous improvement”. Departments are required to “highlight all improvement related activity, in particular where this related to Best Value Reviews and/or the delivery of Efficient Government projects”.

44. Under the current arrangements for departmental planning, departments are required to provide a statement of their commitment to Best Value and overview of activity planned to take forward the Best Value regime. One example is the “departmental management board has taken the view that the principles of Best
Value should be incorporated and embedded in the full range of our work, and for 2005-6 there will be no schedule of standalone Best Value projects. Likewise, improvements in the way that the department delivers its priorities is tackled in our major projects, our development of an outcome based approach to business and the new governance arrangements for the departmental management board.”

45. The Guidance for carrying out reviews provides more detail on the objectives of the process. It sees Best Value as providing a framework for taking forward improvements in a systematic way and focussing on delivery of outcomes. This should require departments to:
   • Demonstrate that they are performing effectively; and
   • have the right systems and processes in place to plan manage and report on delivery performance.

46. The quotation from the departmental management board implies that this will be delivered through the normal process of planning, budgeting and reporting performance. I shall return to this assumption later in the paper.

47. From the documentation I have seen, it appears that Executive departments have focussed on their administration of spending programmes. There have been reviews of performance management, grant support and service contract systems - mechanisms through which departments make policy or exercise oversight over agencies. In addition there have been cost-cutting reviews. One made savings of £2m in 2004, which the department reallocated to other priorities in the portfolio.

48. However, departments also have a requirement to undertake Policy and Financial Management Reviews (PFMRs) of the public bodies responsible for delivering services. The related guidance describes PFMRs as:

   “…a well established means of ensuring that public bodies are meeting Scottish Executive policies and priorities, are doing so economically, effectively and efficiently and are striving for improvements wherever possible” (para 1.1)

49. Each public body is reviewed every five years, in terms of governance, accountability, responsiveness and value for money. The Cabinet Guidance sets out the need for 'a strong focus on improving their future performance.’ Clearly, the objectives of PFMRs are consistent with those of Best Value, even the requirement to evaluate these through a framework if the ‘Four Cs’ (see Annex) is missing. The Executive has advised the Committee that it is looking to review and streamline PFMRs, and avoid any duplication with the audit of Best Value.

50. As with PEAs, however, it is not clear that Best Value, with its concern for improvement of outcomes, is a mechanism which will contribute directly to improving public sector productivity in terms of economic output. The inclusion of Departmental Improvement Plans within the Business Plans is sensible, but the key issue is whether there are output/outcome baselines for all activities,
and a regular reporting mechanism for demonstrating continuous improvement. In local government, the formalisation of the Best Value Audit process places performance issues at the centre of council planning and management. It is not clear this is the case with NDPBs or departments at this stage. Indeed, in a paper “Public Service Improvements – the Conditions for Success and the Scottish Experience” published by CIPFA, the Auditor General for Scotland argued for the principles of Best Value to be applied across the public sector, in the form of a three yearly performance report, prepared by each public body, backed up by independent audit of these reports.

**Efficient Government**

51. The third mechanism under consideration is the Executive’s agenda on Efficient Government. This was announced in June 2004, and since then, the Finance Committee has expressed ongoing concerns over the deliverability of the efficiency savings targets, and problems of monitoring implementation because of the inadequacy of the information base.

52. The focus in this paper is on the role of Efficient Government in increasing productivity in the public sector, as part of the Executive’s strategy for ‘growing the economy’. In his initial statement to Parliament on this topic, the then Finance Minister Andy Kerr highlighted ‘the step we are taking to ensure we lock in continuous improvement and real efficiency gains across the public sector.’

53. Mr Kerr set targets of £500m of efficiency savings by 1007-08, rising to £1billion by 2010, through his budget plans to reduce ‘waste, bureaucracy and duplication in the public sector’.

54. The objective is to achieve this by releasing resources from support services to frontline services. This is the same approach to Efficient Government introduced by the UK Government, and the five workstreams for achieving savings in the Gershon Report were also identified in Scotland. These are: procurement; back office reform; transactional services; productive time; and policy, funding and regulatory regimes. Efficient Government would build on the introduction of Best Value in the public sector, by looking at the public sector as a whole, and release efficiencies through joining-up-in purchasing, in accommodation, and in back office functions.

55. Efficient Government has a narrower focus than Best Value, which seeks to improve processes and outcomes in the public sector – as it seeks to find efficiencies for redirecting to priority frontline services. Savings may arise in Best Value Reviews, but as part of a broader exercise. Such savings would form part of the growth monies available to spend in frontline services, (i.e. with the growth in funding in the Scottish Departmental Expenditure Limits (DEL) from the operation of the Barnett formula), and were allocated to portfolios as part of the Spending Review process of directing resources to priorities.

56. The Efficiency Target was set in Spending Review 20004, as being to “make government in Scotland more efficient and release £500m or recurring efficiency savings for investment in frontline services by March 2008.” The
Technical Note on this target defined an “efficiency improvement” as any activity which improves the ratio of outputs to resource inputs. This could be achieved in two ways:

a. By producing the same outputs with fewer inputs;
b. By producing more or better outputs for the same inputs.

57. It made an important caveat however, by reporting that the £500m target relates solely to the first of these, which it termed cash releasing savings. Moreover, ‘as the value of increased output in the public sector is difficult to measure objectively, it would measure and value ‘time releasing or ‘output enhancing’ improvements where feasible, but they would not ‘be counted as a contribution towards the target.’

58. This approach was changed in November 2004, by the new Finance Minister Tom McCabe, who increased the cash releasing savings target to £745m, and set a target of £600m for time releasing savings by 2007-8 (Scottish Executive 2004).

59. The distinction between the two types of efficiency savings, however, implied that cash-releasing savings from support services would be regarded as reducing inputs, whilst the growth in output would arise in frontline services. This applied whether the resources were retained within portfolios to meet ministerial priorities, or reallocated to other portfolios to meet Executive Priorities.

60. This created an important information gap, which was identified by the Deputy Auditor General Caroline Gardiner (Audit Scotland 10/5/2005) in response to an invitation by the Executive to comment on the adequacy of the Efficiency Technical Notes (ETNs). There are Technical Notes for each project which describe how the savings will be measured, monitored and delivered, making them key priorities for monitoring and reporting savings.

61. Audit Scotland argued that 'significant development of the ETNs is needed', particularly over the specification of savings, and risk assessment over delivery and the exclusion of associated development costs from the calculations. From the perspective of the review, however, the key criticism was that:

“A number of Technical Notes rely on measuring changes in expenditure as a means of identifying efficiency savings. However, the measurement of efficiency depends on capturing changes in both inputs and outputs, and efficiency savings cannot be measured through changes in expenditure alone.”

62. In later correspondence with the Committee, the Deputy Auditor General continued and expanded on this theme, arguing that:

“In order for the Executive to monitor the achievement of savings it is important to have clear information for measuring the baseline ratio of
inputs to outputs, and how this ratio changes over the lifetime of any initiative, at each stage of the project.

63. The Deputy Auditor General further advised the Committee to seek “baseline information for inputs and outputs relevant to each initiative at the start of the project, in particular information on actual outturn costs for cash releasing initiatives.” The Commission recognised the methodological difficulties in measuring public sector output.

64. The main problem with the ETNs arose from initial decisions regarding input/outputs. Accountants tend to use efficiency as a measure of the ratio of inputs to outputs of specific programmes, whereas the Executive’s approach in the main reduces support services costs in order to increase investment and outputs in frontline services. In practice, cutting expenditure on support may have indirect effects on services, as administrative support is a vital element of any organisation, even though its output is not always amenable to simple quantification, and spending reductions may result in poorer quality services.

65. The problem of monitoring the output growth in frontline services is neatly captured in a letter from the Finance Minister to the Convener of 2 August 2005. This explained that:

“...the savings that we built into the budget baselines were indeed realigned within portfolios. In addition to these savings, portfolios were given increases to their budgets from Spending Review 2004. Savings and new money were equally taken into account in allocating resources within portfolios and are not separable. Together this money will fund the portfolio’s objectives and targets as published in “Building a Better Scotland: Spending Proposals 2005-8, Enterprise, Opportunity and Fairness”; and project managers have already been asked, wherever possible, to provide details of the reallocation of savings in the ETNs. We are working with project managers to try and refine the collection of this information. But it will not always be possible to say whether some service enhancement was financed by an efficiency savings rather than new money.”

66. When announcing the revised targets in November 2004, the Finance Minister stated that public services will grow by more than 5% a year over the Spending Review period, funded by both efficiency savings and incremental budgetary growth in the Scottish Budget. This was measured by the Executive through a simple increase in the Departmental Expenditure Limit ‘consistent with the conventional national accounting approach which measure public sector output via an index based on total cost.’

67. However, in practice, the conventional approach would not allow the efficiency savings to be included in this calculation, as it is simply shifting resources within the DEL which would be double-counting. This would leave the growth in output using the National Accounts Methodology at 3.4% per annum, reflecting the real terms growth in funding provided in the UK Spending Review (HM Treasury 2004).
68. It would also be unwise to rely on output data set as targets in the Spending Review, as these also include process-based and outcome based measures, and provide an incomplete picture of growth in output over the cycle. The efficiency savings may well be funding “more teachers, more police officers and more nurses,” (SENR 29/11/2004) but this is not quantified in any of the Efficient Government documentation.

69. Similar problems were identified by the Local Government Improvement Service with regard to efficiency savings in local government, including:

- The separation of financial and performance monitoring and reporting in councils which means that the impact of financial savings on the level and quality of outputs is hard to assess;

- The absence of nationally consistent and relevant measures of productivity and output. The major investment in Statutory Performance Indicators does not provide adequate measures but the required investment in returning these means that resources have not been available to develop more useful measures;

- The practice in many councils of achieving savings by savings targets for services without a developed narrative of how they are to be accomplished, or their impact on service users and partners;

- The tendency in most councils to quantify growth and cuts in expenditure separately so that the flow of resources, and the link between net loss in some areas and net growth in others, is hard to track as Efficient Government is concerned with the shift of resources to customer service then the flow of resources needs to be established’ (Finance Committee, Tuesday 7 March 2006, pp2-3).

70. The final point is that the current list of Technical Notes shows that the Executive has gone beyond the workstreams identified in Gershon. This is not surprising as the Executive has few transactional services and has already centralised much of its own support services, and has not made any proposal for realignment of policy, funding and regulatory regimes, and is looking at better asset management, for example, as an alternative workstream.

71. The major problem of monitoring the efficiency savings is the absence of clear output baselines and the reallocation of funding to portfolios without defining the additional outputs, but simply relying on Spending Review targets as the basis of performance reporting.

Conclusions

72. Growing the economy is the Executive’s stated top priority and one of the four key outcomes which are set out in FEDS, with regional development, closing the opportunity gap, and sustainable development. FEDS also identifies management of the public finances as one of its five drivers of economic growth, focusing on the continual improvements of public sector productivity.
73. It further specifies the Spending Review as the strategic framework for expenditure decisions, which contains a set of objectives and targets to link resources with results. This approach to financial management is very similar to Public Service Agreements in Whitehall.

74. The Treasury’s discussion documents on public sector productivity set out the economic case for public expenditure, and its contribution to the economy through providing “the conditions that enable private businesses to grow and raise their full potential, thereby raising the productivity and prosperity of the economy as a whole. Strong health and education systems, plus an improved transport network, will deliver an environment in which enterprise can flourish, not least by promoting a healthy skilled and mobile labour force.” (HM Treasury, 2003 p1) In the Treasury’s view, improved productivity in the public sector will contribute to higher economic growth overall.

75. The Background Analysis to FEDS also takes this line, as the Executive’s spending programmes support the Scottish economy by providing public services that raise our growth potential, such as education and health; and investing in public infrastructure (p27). It further identifies a number of financial instruments to drive this agenda - Pre-Expenditure Assessments, which provide an assessment of the economic, social and environmental impact (which together the Executive regards as sustainable development) and value for money; Best Value, which focuses on continuous improvements in public service delivery; and Efficient Government which releases resources from support services to frontline services. Raising public sector productivity through sound financial management will have an important influence on economic performance.

76. This review of these mechanisms has highlighted how they operate within the Executive, and identified some problems of practice. In the concluding section, I adopt a strategic perspective focusing on the Executive’s management of public finances in the round, and to identify areas for improving performance.

77. Central to the approach is the objective of increasing public sector productivity, yet we have a major conceptual and methodological problem in measuring it. FEDS recognised this and the need for precision in both measuring and valuing public sector output.

78. These problems were central to the Atkinson Review. The conventional approach of assuming that the value of public sector output is equivalent to resource inputs is clearly inadequate, and the need for better measurement of output central to the economic strategy of raising sustainable growth, by delivering more and better outputs such as medical treatments and school lessons, and maximising outcomes, such as better health and literacy. The central argument is that public sector performance should be judged on the outcomes they achieve.

79. Practice falls considerably short of the aspiration, as the Treasury acknowledges (see Annex), because whilst measuring inputs may be relatively
unproblematic, outcomes result from the combination of the effect of public sector outputs with external factors, and outputs themselves can be difficult to quantify in monetary terms – which is required under the National Accounts approach.

80. This is not a new problem. It has been recognised since the early developments of performance indicators in the 1960s, and it is not at all clear that it is soluble. As the Treasury observed, “while the theory is clear, the development of robust measures of public services productivity is far from simple” (p39). Atkinson’s remit to promote a common approach to measuring productivity is ambitious. At the moment, developmental work is being undertaken to develop economic output measures for the health, education and police services. (Scottish Executive 2005, Implementing the Atkinson Review in Scotland). The aforementioned report acknowledges that better measures are necessary to ensure that the required efficiency and productivity improvements to realise growth objectives are met (p5).

81. These developments are challenging intellectual tasks which should not be underestimated. The practical consequences however, are that the Government has adopted an outcome based approach in which its top priority cannot be measured satisfactorily, and its delivery mechanisms for improving public service delivery require broader performance measurements, yet clearly lack comprehensive systematic frameworks of performance indicators, whether outputs or outcome. Public sector productivity is measured for the National Accounts – and hence economic output in the form of GDP – is to be promoted through delivery mechanisms which require wider measures of output, but these too are inadequate.

82. The Committee has already commented on the absence of a strategic target for economic growth, which the Executive has declined to introduce because of the difficulties of linking expenditure to economic performance. It argues in FEDS that there are no unique policy solutions to achieve top-level outcomes but performance targets are being used as intermediate steps towards reaching overarching commitments. (p31)

83. It is difficult to regard the mix of process based, output based and outcome based targets in this way, as most of them relate to functional objectives. As our review of the financial instruments has shown, there are real problems of assessing the impact of expenditure decisions on outputs. The Permanent Secretary’s evidence to the Committee that the new performance systems within departments link policy commitments to delivery outcomes (para 8) seems inconsistent with the acknowledgement of the limitations of performance measurements made earlier.

84. Mr Elvidge further stated to the Committee that the Executive has evidence on nearly every output that can be measured but what is missing is measurement and monitoring of strategic impact on the crosscutting objectives of growth, opportunity and sustainability, yet the Best Value Guidance reports the necessity of having both strategic and operational targets. It cannot be simply assumed that the combined impact of the stated portfolio targets will deliver the
outcome objectives. The Executive’s management of the public finances, through the Spending Review process, PEAS, Best Value and Efficient Government, does not address these major issues directly, and strategic targets are needed for performance reporting.

85. The Committee has been advised that Ministers cannot identify how much is spent on growing the economy or set a specific target which shows what a sustainable increase in growth would be. Whilst the financial instruments address the economic, social and environmental impacts of spending through PEAs, the evidence base is light. Whilst departments have a requirement to deliver continuous improvements in service delivery through Best Value, systematic reporting of these improvements is required. Efficiency savings are being reported, but mainly as cash savings in the absence of robust output data.

86. This leaves considerable scope for improving the transparency of the system. The post-Atkinson work may deliver better measurements of GDP in time. Meantime, Parliament could seek alternative measures of economic development such as employment and investment to permit more robust reporting of Executive performance. Further, whilst it is difficult to separate out the impact of external factors from spending programmes on outcomes, the budget process could provide PEA type assessments in the public domain for spending choices.

87. A further problem relates to targeting and monitoring priorities, which the Executive argued would be helped by this new financial management regime. Transparency would be enhanced by the Executive defining in operational terms what prioritising means and then illustrating in the budget documents how its resource allocation decisions reflect the stated priorities. The current approach is too broad, when health, education, transport and infrastructure spending are all deemed to support ‘growing the economy’. This may be true in macroeconomic terms, but more focussed operational criteria are required to assist in deciding between budget options.

88. Similarly, Best Value requires regular and systematic reporting of performance against key indicators of service standards to show continuous improvement, using outcome data to supplement this when the indicator can be deemed a plausible and robust measure of Executive impact.

89. Finally, if Efficient Government is to remain in its current form, then baseline output data and the monitoring of changes is necessary to make a reality of efficiency savings. There is a requirement for greater transparency over the delivery of savings and the re-allocation of resources, which should be comprehensively reported to Parliament.

90. At this time, the report of the independent Baseline Budget Review Group is still to be published some five months after the planned date of the end of February 2006. When this is published, the Committee may wish to review the issue, and examine the scope for rationalising such review exercises to focus on savings per se, given the problems with outputs. This would make monitoring easier,
remove the need to demonstrate efficiency gains, and release resources for priorities.

91. The Executive’s approach at the moment remains overly aspirational, given the priority of measuring outcomes. A more pragmatic approach could widen the scope for choice in the forthcoming Spending Review.

Professor Arthur Midwinter

References
ANNEX 1 – PRINCIPLES OF THE ATKINSON REVIEW

**Principle A:** the measurement of government non-market output should, as far as possible, follow a procedure parallel to that adopted in the national accounts for market output.

**Principle B:** the output of the government sector should in principle be measured in a way that is adjusted for quality, taking account of the attributable incremental contribution of the service to the outcome.

**Principle C:** account should be taken of the complementarity between public and private output allowing for the increased real value of public services in an economy with rising real GDP.

**Principle D:** formal criteria should be set in place for the extension of direct output measurement to new functions of government. Specifically, the conditions for introducing a new directly measured output indicator should be that (i) it covers adequately the full range of services for that functional area, (ii) it makes appropriate allowance for quality change, (iii) the effects of its introduction have been tested service by service, (iv) the context in which it will be published has been fully assessed, in particular the implied productivity estimate, and (v) there should be provision for regular statistical review.

**Principle E:** measures should cover the whole of the United Kingdom; where systems for public service delivery and/or data collection differ across the different countries of the United Kingdom, it is necessary to reflect this variation in the choice of indicators.

**Principle F:** the measurement of inputs should be as comprehensive as possible, and in particular should be sufficiently disaggregated to take account of changes in the mix of inputs and should reflect full and actual costs.

**Principle H:** independent corroborative evidence should be sought on government productivity, as part of a process of ‘triangulation’, recognising the limitations in reducing productivity to a single number.

**Principle I:** explicit reference should be made to the margins of error surrounding national accounts estimates.
ANNEX 2 - Issues Relevant to Appraisal and Evaluation

There is a wide range of generic issues that may need to be considered as part of any assessment. The following list should be checked for relevance to options under appraisal and used for later evaluations:

- **Strategic impact** – new proposals can be said to have strategic impacts on organisations if they significantly affect the whole or major part of an organisation over the medium to long term. Proposals should therefore be considered in terms of their potential scale of impact and how they fit in with the strategy of the organisation(s) they affect.

- **Economic rationale** – proposals need to be underpinned by sound economic analysis, which should be provided by a cost benefit analysis in an option appraisal. See Chapter 5 in particular.

- **Financial arrangements and affordability** – proposals need to be affordable, and an affordable financial plan needs to be developed. See Chapter 6.

- **Achievability** – all proposals should be assessed for their achievability, and recognised programme and project management arrangements set up as necessary. See Chapter 6.

- **Commercial and partnering arrangements** – proposals need to take account of commercial partnering and procurement arrangements what can be delivered in the market; how costs and benefits can be guaranteed through commercial arrangements; how contracts will be managed through completion. See Chapter 6.

- **Regulatory impact** – as discussed previously, the impact of new proposals on businesses, voluntary sector and charities should be assessed. See Chapter 2.

- **Legislation** – consideration should be given to legislation specific to the case in hand, as well as statutes that affect many proposals, such as the Human Rights Act, or the Data Protection and Freedom of Information Acts.

- **Information Management and Control** – the information requirements of proposals, including the data needed for later evaluation, and the supporting IT that may be required.

- **Environmental Impacts** – the effects on the environment should be considered including air and water quality, land use, noise pollution, and waste production, recycling and disposal. Further guidance is available from ODPM, Defra and DfT.

- **Rural issues** – the government is committed to ensuring that all its policies take account of specific rural circumstances. Appraisers should assess
whether proposals are likely to have a different impact on rural areas from elsewhere. Further guidance is available from Defra.

- **Equality** – impacts on various groups in society should be considered as part of an appraisal. Chapter 5 describes how distributional impacts should be brought into the appraisal process.

- **Health** – the impacts of proposals on health should be considered, and valuation made of the impact on health of poverty derivation and unemployment as well as poor housing or workplace conditions. The Department of Health can provide further advice or can be accessed via the policy hub.

- **Health and safety** – the health and safety of people at work or arising from work activity may need to be safeguarded. Obviously this is of particular concern on construction. The Health and safety Commission can provide advice.

- **Consumer focus** – assessments may need to involve consideration of the cost and quality of goods and services as well as access to choice of, and information about them.

- **Regional perspectives** – CMPS provides guidance on how regional perspectives are best incorporated into the policy making process.

- **European Union** – it will often be important to take account of proposals and activities in other European Union countries, as well as specific legislation and regulations. State aid rules are particularly important to consider as these prescribe the extent to which governments can intervene.

- **Design quality** – the design quality of facilities can be important in ensuring that objectives are successfully achieved.
ANNEX 3 – Extract from Scottish Public Finance Manual

<table>
<thead>
<tr>
<th>Aims and Objectives</th>
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<tbody>
<tr>
<td>• What is the need for the project/programme?</td>
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<td>• What are the objectives of the proposal? Are they clear, and how do they fit with higher-level Ministerial objectives?</td>
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<th>Options</th>
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<td>• What are the options for addressing these objectives?</td>
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<th>The Evidence Base</th>
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<tr>
<td>• What is the research, economic and/or statistical evidence base that underpins the choice of project and delivery mechanism?</td>
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<tr>
<td>• What are the likely economic, social and environmental costs and benefits? Who benefits and who loses? What is the overall value for money of the proposal?</td>
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<th>Financial and Management Arrangements</th>
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<td>• What is the estimated cost to public sector?</td>
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<td>• What is the likely procurement route (where relevant), and what are the management arrangements?</td>
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<tr>
<td>• What are the risks to successful delivery and how have they been mitigated?</td>
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<th>Monitoring and Evaluation</th>
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<tr>
<td>• What are the plans for monitoring and evaluating progress?</td>
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ANNEX 4 – Correspondence with the Permanent Secretary

Finance Committee
Convener: Des McNulty MSP

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13 July 2006

Dear Sir John

Review of Scottish Executive Management of Public Finances

At its meeting on 20 June the Finance Committee considered a paper from its budget adviser, Arthur Midwinter, on Best Value Reviews. The Adviser’s paper detailed the duty on Accountable Officers to secure Best Value, noting that this duty (as detailed within SPFM) includes:

• Making arrangements that secure Best Value;
• Continuous improvement in organisational performance of functions;
• Maintaining a balance between cost, quality and value for money, and observing the recommendations of equal opportunities and sustainable development; and
• Reporting outcomes to the public.

Given your position as accountable officer, the Committee would be interested to learn from you what internal processes the Scottish Executive has in place to ensure that each department is working to secure Best Value. In addition, the Committee would appreciate details of what specific information departments are required to provide to you with which allows you to ensure that you are fulfilling your duty to secure Best Value.

The Committee would also be interested to learn whether Executive departments can be seen to be taking similar approaches in relation to securing to Best Value and what steps you are taking to ensure consistency across departments.
Finally, in order to ascertain whether Executive departments have a similarly systematic approach in relation to Best Value to that required by local government, the Committee would find it useful if you could provide details of how the Executive’s internal approach compares to the requirements placed on local authorities by the Executive to secure Best Value.

I should be grateful for a response by 20 August.

Yours sincerely

[Signature]

Convener
Response from Sir John Elvidge, Permanent Secretary, Scottish Executive

Thank you for your letter of 13 July 2006 on the review of Scottish Executive management of public finances.

Best Value within the Scottish Executive is fundamentally about continuous improvement, seeking to change what we do in a way that transforms and sustains the delivery of quality public services in Scotland. A corporate approach has been taken to developing a flexible framework that recognises the uniqueness of the Executive’s core business and the specific responsibilities of each department.

The Scottish Executive’s ‘Big Picture’ improvement framework commits the organisation to building best business practices by continuously improving the way that we work. This includes monitoring of delivery – through Delivering Successful Outcomes, Putting the People of Scotland First, Developing Our People and Building the Best Business Practices. This provides for an opportunity to identify areas for improvement and commission any recovery work required. A corporate Balanced Scorecard is also used by Management Group to discuss overall performance management and business improvement activity across the Executive on a quarterly basis.

The principles of Best Value are reflected within the core business and the corporate governance and continuous improvement arrangements in place across each department. My Department Heads provide me, as Principal Accountable Officer, with a Statement on Internal Control that includes assurances on the maintenance and review of internal control systems and ‘applicable policies’ within or affecting their areas of responsibility.

Departments are responsible for identifying areas for review and improvement, thus targeting resources and maximising opportunities for innovation and cross-departmental collaboration. From 2006/2007 the programme of Best Value Reviews was mainstreamed and reflected within current business planning arrangements.

Planning, performance and risk management is done at a departmental level with links into corporate processes as necessary. The corporate centre has a role to play in ensuring departmental work is consistent with the corporate whole, and in adding value gained from an overview of process. The business planning process and a Minimum Statement of Requirements allows departments the autonomy to operate in this way. These plans include information on continuous improvement, Best Value, equalities, sustainable development, Efficient Government and risk management.

In relation to your questions regarding the position of the Scottish Executive and local government it might be helpful if I explain the different statutory bases of Best Value in local government and the rest of the public sector. The duty of Best Value is a statutory requirement, placed upon local authorities.
under the Local Government in Scotland Act 2003. The duty of Best Value is applied to other public service organisations – including the Scottish Executive – via the Accountable Officer Memoranda flowing from the Public Finance & Accountability (Scotland) Act 2000. In May 2006 Scottish Ministers issued updated guidance on the duty of Best Value to all Accountable Officers in Scotland.

There has been no direct comparison of the Executive’s approach with that of local authorities. The different bases of the duty, and the dominance within the Scottish Executive’s work of activity supporting Ministers in policy development would make this difficult. However, the Committee will be aware that I recently initiated a Taking Stock review within the Scottish Executive. The review is a rigorous process undertaken by a high-calibre external review team, using a good practice model employed by other parts central government within the UK. This will allow the Scottish Executive to assess its performance broadly against other government departments.

I hope this letter provides useful information for the Committee.

JOHN ELVIDGE
Finance Committee

20th Meeting 2006, Tuesday 5 September 2006

Accountability and Governance Inquiry

1. As part of the Committee’s inquiry into Accountability and Governance, the Finance Committee took evidence from the Scottish Parliamentary Corporate Body (SPCB) on 27 June 2006. John Scott MSP agreed at the meeting to provide the Committee with further details on a number of issues raised during this evidence session, and the Committee has now received this.

2. At its meeting on 13 June 2006, the Committee took evidence from Sir John Elvidge, Permanent Secretary of the Scottish Executive, and on 27 June 2006 took evidence from the Minister for Finance and Public Service Reform. In light of the Minister’s evidence, the Permanent Secretary has provided additional written evidence to the Committee’s inquiry.

3. These submissions are attached to inform the Committee’s consideration of its draft report on the inquiry.

Kristin Mitchell
Assistant Clerk to the Finance Committee
Letter from John Scott MSP, Scottish Parliamentary Corporate Body

Thank you for giving me the opportunity to give evidence on behalf of the SPCB at your committee meeting on 27 June as part of the Committee’s inquiry into the accountability and governance of commissioners and ombudsmen.

During the evidence giving session you will recall that I promised to let you have further details about the lease provisions for office accommodation for those office holders who are nominated for appointment by the Parliament.

It might be helpful if I begin by putting in context the issues faced by the SPCB in relation to its statutory remit with regard to the functions of the officeholders.

As explained in oral evidence, the SPCB took careful account of the wording of the legislation, in particular to the provisions (which are in effect for all officeholders) which state that officeholders are (a) “not subject to the direction or control of the parliamentary corporation, any member of the Scottish Executive or of the Parliament in the exercise of their functions,” (b) that an officeholder may acquire and dispose of land and other property and enter into contracts,” and (c) that the SPCB is to pay any expenses incurred by the officeholder in the exercise of their functions.

These provisions, in the SPCB’s view, were further enhanced by the explanatory notes accompanying the introduced Bill which explained that specific provision had been made for officeholders not to be subject to the control or direction of the Scottish Parliament or Scottish Executive unless where otherwise indicated in the Act such as the preparation of accounts which were to be in accordance with directions provided by Scottish Ministers and that officeholders had general powers which were ancillary to their main functions, to enter into contracts, to ensure that they could carry out their functions effectively.

Although specific legislative provision had been made for the SPCB to approve certain determinations made by an officeholder, such as the appointment and terms and conditions of staff, no such provision was in place for the SPCB to approve an officeholder’s determination on office location or the need for their budget to be approved. Thus the current legislative provisions cannot be said to be free from doubt. Nevertheless, as the officeholders’ budget bids form part of the SPCB’s overall budget bid, the SPCB considered that a certain level of accountability and scrutiny of budgets was required. Accordingly officeholders were required to submit to the SPCB annually detailed budget proposals and that they should, when invited, appear before the SPCB in support of their respective budget bids and to answer any questions thereon which members of the SPCB deem appropriate.

In summary, the SPCB requires to operate within the current statutory framework. Nevertheless, the SPCB has, with the co-operation of the
officeholders, actively engaged with their budgets and has prompted examination of possible efficiency gains, for example, on shared services.

As we explained to the Finance Committee, explicit provision has been included in the Scottish Human Rights Commission Bill with regard to obtaining specific approval from the SPCB on office location. Further, an amendment to the Bill could be lodged at Stage 2 to include an explicit requirement for the SPCB to approve the Commission’s budget. Such provisions, if enacted, will put beyond doubt the powers of the SPCB. The fact that these provisions are being made in this Bill does, I think, highlight the possible constraints within the existing legislation and, therefore, the fine line the SPCB has had to tread in achieving a degree of budget scrutiny. In that context, I am satisfied that the scrutiny has been effective though, as I have indicated to the Committee, I believe we can build on this.

The Committee has asked for details of the lease arrangements for each individual officeholder and these are detailed below. It is worth noting that the Audit Scotland report recognises that, at present, the accommodation costs being incurred by each officeholder seem reasonable given that the officeholders became operational on different timescales thus reducing the prospect of obtaining efficiencies through office sharing arrangements.

**The Scottish Parliamentary Standards Commissioner** - Dr Jim Dyer is home based and therefore has no accommodation costs included in his budgetary provision.

**The Commissioner for Public Appointments in Scotland** – Karen Carlton is based in serviced accommodation in St Andrew Square, Edinburgh. This is the accommodation previously occupied by various offices of the Parliament’s administration prior to the move to Holyrood. Given that she has only a staffing complement of 4 she considered, in discussion with SPCB staff, that initially there was no need to occupy leased accommodation. Ms Carlton is based in Edinburgh as the majority of her work is related to public appointments undertaken by the Executive and she therefore considered that she should be within easy access of the main Executive departments. She is supported in her work by independent assessors who are all home-based and located throughout Scotland. At present her annual rent is £39,820 which is based on the preferential rental previously offered to the Parliament. I can, however, advise the committee that discussions are underway with the Ombudsman on the possibility of co-location with the Ombudsman.

**The Scottish Information Commissioner** – Kevin Dunion is based in St Andrews. At his interview for appointment, Mr Dunion mentioned that he would be looking at office accommodation in Fife. He subsequently considered office accommodation in Rosyth, Kirkcaldy, Cupar, Dundee and St Andrews. Most of the accommodation considered was, in his view, either too large or too small for his requirements and the Commissioner ultimately decided on the premises in St Andrews which could accommodate his staff complement (currently 19). The market rental value of the premises at that time, according to professional surveyors, was between £35,000-£40,000 and
the lease was acquired for £27,500 on a step lease rising to £37,300 in 2010. At present the annual rent is £35,900. The lease is until 2021 with provision to sublet the property at any time before then with the prior approval of the landlord. The lease has no break clause.

By way of background, when the Commissioner met with the SPCB in April 2003 he gave an update on the position in relation to his office accommodation. While I was not a member of the SPCB at that time I understand that the SPCB did question robustly his decision to locate in St Andrews but considered itself to be restricted in making any direction given the statutory provisions I have explained above.

**The Scottish Public Services Ombudsman** – Professor Alice Brown is located in Melville Street, Edinburgh. She is supported by 3 part-time deputy Ombudsmen and has a staffing compliment of 36.

The SPCB also met with Professor Brown in April 2003. It was recognised at that meeting that the Ombudsman was in a different position from the Information Commissioner. The Ombudsman’s office was an amalgamation of three existing offices.

To facilitate the one-stop shop it was considered appropriate to amalgamate all the staff (who would transfer under TUPE principles) and move them to one location. Prior to the establishment of the one-stop shop, the former Local Government Ombudsman had commissioned consultants to consider options for a single site office. The consultants based their work on Scottish Executive policy guidance on public sector relocation at the time which stated that such activity should be driven by efficiency and effectiveness and that subject to these considerations, public sector bodies should be close to the communities they serve. The consultants considered three main areas; proximity to clients; proximity to public transport; and staff retention. The consultants concluded that in terms of proximity to clients and public accessibility that there were strong arguments for location in the central belt with Edinburgh being the most logical location; the proximity to public transport requirement would favour Edinburgh or Glasgow and in order to retain highly experienced staff with specialised skills that these factors favoured an Edinburgh location.

Taking all these considerations into account, the consultants recommended an Edinburgh location. They also provided advice on the optimal location within Edinburgh estimating that the cost per square foot would be in the region of £20. The Ombudsman however managed to secure a lease for £17 per sq ft and negotiated a 15 month rent-free period. The lease entered into ends on 2018 with a current annual rental on the property at Melville Street of £124,500. Four car-parking spaces at the rear of the property are sublet and provide an income of £9,000 per annum. The lease could be assigned or sub-let with consent from the landlord. There are no break clauses and early termination of the lease would have to be negotiated.

**The Commissioner for Children and Young People in Scotland** – Kathleen Marshall is based in Holyrood Road, Edinburgh. The annual rental
of her office is £58,750 with rent reviews in 2009 and 2014. The lease is in place until 2019, with a right to terminate the lease without penalty in 2014. There is also a clause in the lease which makes it possible to assign the lease or sub let the whole of the premises with the prior consent of the landlord. The SPCB was informed in March 2004 that it was the intention of the Commissioner to establish her office in Edinburgh. Subsequently, the SPCB portfolio member at the time met with Kathleen Marshall to see whether the Commissioner had considered locating outwith Edinburgh. The Commissioner considered that Edinburgh was her preferred location as it was closer to the head offices of a large number of children related voluntary organisations such as Children First and Barnados etc. She also considered it important to be located close to the Parliament and the Executive’s Education Department.

Finally, on having read the official reports of the inquiry to date, I note that you do have concerns about officeholders possibly directing policy changes. You will recall in our written evidence we suggested that to ensure proper accountability to the Parliament that Committees could be encouraged to actively engage with officeholders, possibly by way of scrutinising the officeholders’ annual reports. Such engagement could overcome any of your concerns on this matter. I consider it would be beneficial therefore if the committee could consider this proposal when drawing up its recommendations.

I hope this additional information is helpful to the Committee.

Yours sincerely

John Scott MSP
Letter from Sir John Elvidge, Permanent Secretary, Scottish Executive

Further to the Convener’s letter to me of 14 June, I have looked at the evidence which I gave to the Committee on 13 June in the light of the questions put to the Minister for Finance and Public Services on 27 June.

On the issues relevant to the former Scottish Legal Services Ombudsman, I think it is unfortunate that the Convener put it to the Minister that:

“...the accountable officer seems to have said that it does not matter that financial procedures were not put in place and operated”.

I find that characterisation of my evidence difficult to reconcile with my repeated statements that:

“...it would be better in principle to have the statement of framework in place earlier” and

"...It would have been a good idea to put in place a financial framework for the office earlier.”

It follows that the Minister was absolutely correct when he said:

“...if there were shortcomings in how the Executive oversaw the legal services ombudsman we should learn from them. There is no question in my mind about that. I would be surprised if the permanent secretary does not want to learn those lessons – I am sure that that is not the case”

in which he might have been influenced by some recollection of my statement at the end of the Committee’s questions on that particular subject,

“...one of the benefits of getting into this kind of tangle is that one learns quite a lot in the process. It is obviously desirable for such issues to be clear from the outset.”

I think it would also be helpful to ensure that there is no misinterpretation of my evidence about financial memoranda. It is clear from Dr Murray’s questions to the Minister for Finance and Public Services that she had interpreted my statement, which she quoted:

“...there is a natural tendency to create some headroom in that process”

to mean that I attributed that approach to a desire to make allowance for uncertainties in cost estimating. In the answer to Mr Swinney at which those words form part, I had sought to make a distinction between the purpose of financial memoranda and the process of annual budget control. It follows, again, that the Minister was absolutely right to say in relation to the interpretation of my evidence which had been put to him:
“I do not understand why he would indicate that”

because my words were not intended to indicate any such thing.

The source of the difficulty appears to have been the evidence of the Commissioner for Children and Young People, interpreted to mean “that she used the financial memorandum more or less as a basis for her budget”. To take that view would be contrary to the distinction on which my evidence was explicitly predicated. The Executive’s practice would not be to leave an organisation for which we were responsible in the position of having no basis for budget setting other than the financial memorandum. I agree with the Minister for Finance and Public Services that the basis for annual budget setting should be a tightly drawn estimate of financial requirements in each year; and I remain of the view that it would be misguided to base financial memoranda on the same criteria because their purpose is to offer a broader view of the potential financial implications of legislation.

JOHN ELVIDGE