Dear Mr Welsh

PUBLIC SERVICES REFORM BILL

When I gave evidence to the Committee on 6 October, I undertook to respond in writing to questions from James Kelly MSP, David Whitton MSP, Joe FitzPatrick MSP and Jeremy Purvis MSP, on some of the technical assumptions underlying the estimated costs in the Financial Memorandum.

Mr Kelly sought clarity about the range of costs presented for the Creative Scotland voluntary early severance (VES) and voluntary early retirement (VER) schemes which show a variation of £1 million between the lower and upper estimates. Mr Kelly also asked about the average costs for those leaving and the estimate of £166k for VER.

On the range of costs, Parliament’s Standing Orders require that cost estimates include an indication of the margins of uncertainty in such estimates. The cost of VES for individuals in the Scottish Arts Council and Scottish Screen, for example, is dependent on both the salary and length of service of the individuals concerned. The actual costs for VES will therefore only become clear at the point when volunteers are identified and individual circumstances are known. So the estimated costs for VES/VER for Creative Scotland, and indeed for the other structural changes in the Bill, have been presented as the best estimates we have at this time to demonstrate the scale of the costs.

It is important to add that voluntary exit schemes will be used only where other methods to reduce staff numbers in the emerging structures have been exhausted, and respecting the statutory employment rights of the staff affected by structural changes. In the first instance the necessary reductions will be achieved wherever possible through redeployment and natural turnover. In the event that voluntary exit schemes are required as a direct result of restructuring then prior approval must be sought from Scottish Government before any expenditure may be committed. The supporting business case must set out the terms of the exit scheme, and clearly demonstrate affordability and the savings generated.

Mr Kelly asked whether the estimate of £166k for the Creative Scotland VER costs included an element of enhancement and would be available to staff of all ages. That is not the case. The lower age limit for receiving a pension changes from 50 to 55 with the implementation of new pensions legislation in April 2010 and this legislation applies to the staff concerned. The rules of the relevant
pension schemes do not require enhancement of service and enhancements are not routinely offered in respect of staff granted early retirement. These are only likely to be made in certain circumstances. There is, however, a potential cost to the employer for early payment of pension in early retirement situations. The Financial Memorandum was drafted to allow any and all circumstances to be met, but it does not give authorisation for any such early retirement scheme, nor could it.

David Whitton MSP asked for clarity on the assumptions used for the estimated harmonisation costs for Social Care and Social Work Improvement Scotland. It is important to note that the approach taken in the financial memorandum only demonstrates what the scale of a harmonisation exercise could be, not what it will be. The actual cost will not be identified until the pay remit for the new body has been developed and a job evaluation exercise undertaken.

The range of estimates in the financial memorandum were calculated by mapping SWIA and HMIE staff onto the Care Commission pay and grading structure using the same comparison of Scottish Government/Care Commission grades as those used in assessing the Care Commission’s 2008 pay remit. The minimum and maximum of pay ranges were used to produce the estimates. This approach is consistent with the public sector pay policy guidance.

A further exercise, subsequent to the production of the Financial Memorandum, was carried out to refine the estimated harmonisation costs using actual salaries of all SWIA and HMIE staff currently in post. Salaries were compared to the next point up on the scale rather than the next point down. The outcome of this exercise was a revised best estimate of £350k, compared to the figure of £738k in the Financial Memorandum.

We have also acknowledged the Care Commission’s concerns about comparative job weightings as set out in its evidence. This is an issue which Social Care and Social Work Improvement Scotland will need to address in due course as it develops its new structure so as to ensure equity and consistency in the grading and pay of posts in the new organisation. However the timing and extent of any job evaluation exercise will be for SCSWIS to decide.

The Committee also raised a question on what the impact will be on the Scottish Public Services Ombudsman of the various complaints handling amendments which Ministers indicated could be made at Stage 2 of the PSR Bill. The Government is working with the Ombudsman to plan for its proposed new role and for the transfer of responsibility for existing systems such as for water and for aspects of prison complaints, as well as other possible transfers such as bus complaints and social work complaints - as recommended in the Sinclair Report.

### The proposed design authority role

The proposed design authority role is a new role for an Ombudsman and we are in discussion about what level of resource would be required for this – taking into account the longer term ambition of reducing the SPSO role in handling complaints by empowering service providers to deal with a greater number of complaints at first point of contact. This should resolve complaints at an earlier stage in the process, which should reduce the number of complaints being referred to SPSO.

The specialist aspects of prison and water complaints functions are currently fully resourced. Current discussions include how resources for these could be transferred to SPSO along with any additional responsibility. The working assumption for water complaints is that, following discussion with SPSO, it is estimated that one-off start up costs of incorporating Waterwatch Scotland’s functions into the SPSO work programme would be £87,000. Running costs thereafter would be £72,000 overheads and salaries of £130,000 giving a total of £202,000 per year.

However, it is unlikely that responsibility for complaints handling in these sectors would transfer to the SPSO all at once. We are therefore planning for a staged increase in responsibility and discussing how best to make resources available to the SPSO to meet this. The Government is aiming to provide costed figures for the additional roles SPSO will be asked to take on when the amendments are introduced at Stage 2. The Parliament, in its Committee Bill, is also proposing to make changes to the SPSO functions. We will liaise with Parliament on the best way to accommodate the transfer of prison complaints to the SPSO.

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1. A number is not provided in the text for this reference.
Jeremy Purvis MSP asked about redeployment and how that would be captured as a saving for a particular body.

Where staff become surplus in a specific employing organisation as a result of the structural changes in the Bill then the first option will be to redeploy any surplus staff to vacant posts with their employer. In these circumstances there are no VES/VER costs arising and efficiency savings will be achieved by the reduction in posts. Similarly, where staff are given the opportunity to move to a job with a new employer elsewhere in the public sector the savings arise through a reduction in posts, though in this case there may also be a cost if there is a statutory entitlement to receive an exit payment. As indicated to the Committee, the saving to the individual body is a net saving to the public sector as a whole, since there has been a reduction in the resources necessary to carry out the body’s functions.

Mr Purvis asked about the estimated shortfall of £546,000 in the event that Creative Scotland did not receive charitable status and queried how the shortfall in funding would be met.

As the Minister for Culture, External Affairs and the Constitution has already said, in giving evidence to the Enterprise, Lifelong Learning and Culture Committee, while it seems unlikely that Creative Scotland’s application to OSCR for charitable status will be successful, it is not yet clear whether there will be a cost to Creative Scotland and if so, what that cost might be. That is a matter for the emerging organisation.

The potential costs quoted in the Financial Memorandum which estimates the total loss to SAC to be £546,400 are based on the worst-case scenario, and take no account of a range of potential options Creative Scotland may wish to pursue to absorb or mitigate any loss. For example, it takes no account of the possibility that Creative Scotland might apply to HMRC for charitable status for tax purposes, which is distinct from any application to OSCR. They also take no account of the fact that efficiency savings made under the current efficiency programme remain with the organisation for reinvestment and exceed the potential impact of loss of charitable status. There will be no direct impact on grants to artists.

I hope that this addresses the points raised by the Committee but I am happy to provide further detail if that is required.

Yours sincerely

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