Introduction

The Public Services Reform (Scotland) Bill was introduced in the Parliament on 28 May 2009. The Scottish Parliament has invited comment on proposals in the Bill and their likely impact and the IoD is pleased to respond in advance of the oral evidence session on 8 September 2009.

The Institute of Directors (IoD) is a non party-political business organisation founded by Royal Charter in 1903, currently with around 50,000 members across the UK and over 2000 in Scotland.

The IoD is the world’s most experienced and long standing organisation advocating director professionalism. The IoD has always championed the entrepreneur and campaigns to represent the interests of members in securing a policy environment conducive to business success. For any business to prosper, the environment must be conducive to growth and present a clear and uncluttered policy context that is readily understood. This has not always been the case in Scotland and is not the case at the moment. Our members seek constantly to campaign for smarter and more effective, efficient and economic government. The current moves to reform public services could be an important component in realising these aspirations.

IoD membership includes directors from many of the most important and growing sectors of the economy – creative media, high value manufacturing, e-business, biotechnology, energy, financial services and the public sector. Members include CEOs of large corporations as well as entrepreneurial directors of start-up companies. They are represented in 92% of FTSE 100 companies, whilst 70% of our members are directors of small and mid-sized enterprises. Our views therefore represent a sizeable and important component of the overall business community in Scotland and being part of a wider UK and international network.

In responding to this consultation, we have read the questions and provide a response that covers the headline issues. The following sections summarise our comments which we will speak to when giving oral evidence.

The Ambitions of the Bill

The Bill is wide ranging and forms part of a wide ranging series of public service reform initiatives including the Simplification Process. As such, it forms part of a larger ambition to tackle a recognised and costly problem in Scotland – too many overlapping and duplicate functions and organisations. The Bill covers dissolution of certain public bodies, the establishment of new national bodies for healthcare and social work and social care scrutiny, and the establishment of a new body for arts and culture. It proposes to introduce order-making powers to effect organisational change in certain public bodies and remove or reduce “burdens” deemed to be holding back “economy, efficiency, productivity or profitability”. The
Bill also proposes a duty on scrutiny bodies in Scotland to cooperate with each other and ensure appropriate “user focus”.

These are all laudable ambitions which we support in principle. However the practical reality of delivering such changes is another matter where defensive culture, self interest and other intransigent attitudes within established public sector institutions make any change a major challenge let alone change that will address the objectives of the Bill. We strongly support the case for change and the need for urgent action to produce genuine savings and new value, for money and for service users. As noted by the Scottish Government, the existing public body landscape has developed on an ad hoc basis without a wider sense of strategic oversight. This has led to duplication of effort in the roles and functions of some public bodies, and presents the public with a confusing array of organisational roles, classifications, remits and functions. This must be changed and cleaned up to reach a position where we have an appropriate number of bodies and functions for our 5 million population and the policy challenges we face. In times of economic challenge and financial crisis, it is even more imperative to drive real change quickly.

The IoD supports the principles within the policy objectives in introducing the Bill as well as the other initiatives but urges further change and a faster pace to help simplify and improve the landscape of Scottish public bodies, deliver more effective, coordinated government that can better achieve its core functions for the benefit of the people of Scotland.

Timing of Change

In the light of the recent financial and economic events with their particular challenges, the drive for greater effectiveness and efficiency becomes even more urgent and recognized as long overdue. This does present difficulties as public sector organisations and posts have an array of protected benefits that make changes costly to the public purse, especially in the short term just when budget pressure on policy choices presents real and growing challenges. This should not stifle change and should not produce a fudge settlement where resources are shuffled rather than reallocated more efficiently for more productive uses.

The Bill proposes short term costs on the Scottish Government’s budget, which could result in medium term and recurring efficiencies. According to the Financial Memorandum (table 1), net savings from passage of the Bill as a whole over the period 2008-2014 (efficiencies of £13.260m – costs of £9.972m) equate to £3.288m. But the reality is that the net savings are unlikely to reach the forecast levels based on previous experience.

Culture change is notoriously difficult to achieve and “optimism bias” is large in future forecasts of savings. Detailed considerations on costs including pensions and severance costs, shared services and platforms, shared systems and processes are all unlikely to deliver as anticipated. This will narrow the gap in both directions – costs will increase and benefits will decrease thereby reducing the net effect considerably. This requires further assessment.

Flagship changes such as Creative Scotland, are costly and expected to be neutral after four years if (and only if) the best estimates of benefits and gains are realized. Other proposals for change in social care and social work for example
face similar challenges in trying to reach a new harmonious level through a period of real uncertainty for staff and customers.

The IoD believes that change should be pursued robustly and the public sector reform should be more fundamental, wide ranging and faster paced. This should however, be done in a responsible and strategic manner set within a deeper policy commitment to change the form and functions of the economic delivery of public services.

Scope of Change

There is an overall need to simplify and reduce the complexity of public sector landscape in Scotland which is crowded and costly. It has been growing “like Topsy” for many years and this has made change and real reform a monumental challenge but one that we must address. Reducing the number of public bodies by 25% is a neat target to quote but does not necessarily relate to the scale of the challenge or the ability to deliver effective change; culture and structural change issues are not easily reconciled with the quick draw target setting that is prevalent in government. The level of change should be related to the scale of the challenge and ability to effect it responsibly rather than being target led. Otherwise change could be frustrated, more costly and short lived.

The IoD welcomes many of the specific improvements suggested in the Bill as well as organisational and other changes to the public sector landscape to remove or reduce burdens throughout the Scottish economy which are identified as holding back economy, efficiency, productivity or profitability. However this should not be a reckless clearance and sensitivity is required in specific circumstances especially in social care, health and education which lie at the core of social and economic well being. We also welcome the duty on scrutiny bodies to co-operate with each other and to ensure continuous improvement and an appropriate user focus in how they fulfil their functions. Greater openness and transparency from communications to detailed engagement will be required.

Public Scrutiny

There is a real need for delivering the five guiding principles of the Crerar Review of public focus, independence, proportionality, transparency and accountability. By pursuing this vigorously through a more ambitious Bill, greater value for money and priority outcomes could be achieved leading to identifiable impacts on society and the economy. A scrutiny system is vital in all sectors of the economy, as witnessed from recent events, and this must also be proportionate, taking cognizance of risks, positive and negative, and the lessons learned from experience.

Change for a more Successful Economy

We are pleased that the Scottish Government recognises its core purpose is to create a more successful Scotland with opportunities for all through increasing sustainable economic growth. Economic growth and the principles of sustainable wealth based communities is central to any successful society. We agree that as the Scottish public sector, businesses and individuals face on-going economic challenges and their consequences, it is vital that the Scottish Government and the Parliament have the powers to respond effectively to changing circumstances
and to tackle barriers to improvement and efficiency within the Scottish public bodies’ landscape. However this again does not mean that short cuts to effect change should be implemented at the expense of deeper, longer lasting cultural change approaches.

The current position has been allowed to develop over the years and lacked any real overwhelming economic justification or strategic rationale. Disentangling the knots is never easy and always raises risks of negative effects on certain services as well as hitting the morale of front line service staff in core organisations. Skill is required in implementing this, drawing from the experiences in the private sector.

We look forward to expanding upon our position in oral evidence.

David C Watt, Executive Director
Institute of Directors
August 2009