

LOCAL GOVERNMENT AND REGENERATION COMMITTEE

PUBLIC SECTOR REFORM AND LOCAL GOVERNMENT

SUBMISSION FROM ACCOUNTS COMMISSION FOR SCOTLAND AND THE AUDITOR GENERAL FOR SCOTLAND

Introduction

1. The Accounts Commission is a statutory, independent body which, through the audit process, assists local authorities in Scotland to achieve the highest standards of financial stewardship and the economic, efficient and effective use of resources. The Auditor General for Scotland is responsible for investigating whether the Scottish Government and most other public bodies other than local authorities achieve the best possible value for money and adhere to the highest standards of financial management. Audit Scotland is the public sector audit agency which undertakes the external audit of the majority of public sector bodies in Scotland on our behalf.
2. We welcome the invitation to submit written evidence to assist the Local Government and Regeneration Committee's inquiry into public sector reform and local government in Scotland.

Overall comments

3. The Accounts Commission and the Auditor General have published a number of reports recently that concern, directly or indirectly, partnerships and outcomes, benchmarking and performance management and the development of new ways of delivering services. In particular, recent reports on the role of community planning partnerships in economic development, community health partnerships, Scotland's Public Finances, Overview of the NHS in Scotland's performance 2010/11, Overview of local authorities 2010, and improving public sector efficiency have all commented on the challenges of securing best use of public resources and achieving effective public sector reform.¹
4. Major themes emerging from these reports include:
 - The public sector generally, and Community Planning Partnerships (CPPs) in particular, do not have sufficient information on cost, activity and quality of services to inform decisions and support effective performance management.
 - Approaches to partnership working have developed incrementally which has led to a cluttered partnership landscape. There is scope to achieve efficiencies by reducing the number of partnership working arrangements and simplifying performance reporting.
 - When public sector organisations work well together there can be real benefits to service users, communities and the organisations themselves. For that reason, more systematic, joined-up approaches to planning and resourcing services are required to ensure that the best use of collective public money is achieved.
 - Progress in delivering shared services has been slow, with barriers including organisational structures, compatibility of systems, staff terms and conditions and funding streams.

¹ All of the reports referred to in this evidence can be downloaded from Audit Scotland's website at <http://www.audit-scotland.gov.uk>

- CPPs need to improve their understanding of the costs of delivering agreed outcomes and what this means for individual partners' budgets.
 - Weaknesses in partnership performance management arrangements mean that it is often not possible to identify individual organisations' contributions to local outcomes.
 - Existing accountability arrangements for CPPs are the means through which individual statutory partners are held to account for their contribution to delivering single outcome agreements (SOAs). However, the tensions between national and local priorities mean this does not always happen in practice.
 - A more fundamental priority-based approach to the delivery of public services is required which allocates money to those services or areas which make the greatest contribution to delivering agreed outcomes. This approach would help managers, board members, non-executive directors and elected members take decisions about where spending cuts can be made against a clear background of the consequences of those cuts.²
5. A consistent theme across these reports is the scope for partnership working to deliver better outcomes for local communities, but this will require:
- changes in leadership and behaviours within CPPs
 - clearer and more robust governance and accountability arrangements
 - better information on the cost, quality and effectiveness of local services
 - a clearer focus on breaking down traditional organisational barriers to drive change more effectively, and
 - a stronger focus on impact and outcomes for local people than has hitherto been the case within CPPs.
6. We do not under estimate the challenge in making these changes, particularly at a time of reducing resources. Difficult decisions will need to be made and this will require strong political and managerial leadership from senior figures in all parts of the public sector.

² Scotland's public finances. Addressing the challenges. Auditor General for Scotland and the Accounts Commission, August 2011

Responses to the Committee's three strands of enquiry

7. This section of our submission summarises the key audit findings from our recent reports which relate to the Committee's three strands of enquiry

Strand 1 – Partnerships and outcomes

8. Local CPPs bring together the relevant local interests to allow a strategic approach to service planning, and community plans set out how changes can be achieved.
9. However, the level of maturity and influence of CPPs differ significantly from area to area. We have previously reported that this is not necessarily indicative of a lack of commitment, but can reflect local personalities, politics, organisational structures, or even a lack of recognition of the value of the local CPP³. A restated commitment from all bodies – public, private and community – to community planning would help realise the potential that exists.
10. Managing performance in a partnership context is complex. Our joint 2011 audit on the role of community planning partnerships in economic development reported that the introduction of SOAs had led to improvements in how CPPs manage performance and track progress on key local issues, but challenges still remain:
- CPPs need to build a culture of trust to enable them to challenge each other and hold partners to account when action is not being taken in relation to agreed outcomes
 - Whilst partners work together under the statutory guidance which underpins the community planning process, CPPs are not statutory bodies. This means that the extent to which they can be held to account for the delivery of SOAs relies on the use of individual partners' own governance arrangements
 - CPPs need to take action more consistently when outcomes are not being achieved by making more effectively use of existing accountability arrangements
 - There are inherent tensions between national and local priorities and national and local accountability arrangements
 - The Scottish Government's role in the SOA process is unclear in relation to:
 - agreeing SOAs with CPPs
 - monitoring progress made by CPPs through the annual reporting process
 - holding central government and NHS bodies to account for their SOA commitments⁴.
11. Public bodies should be thinking to the medium and longer term to ensure that they can deliver better and sustainable public services in the future, not just addressing the challenge of budget cuts in the short term. There is a danger that the loss of skills and experience in the short term may inhibit the public sector's capacity to deliver services in the future.⁵ Adopting priority-based approaches to budgeting and spending across the public sector, both within individual bodies and across partnerships, provides a framework for balancing future costs against the resources needed to maintain essential services and deliver outcomes. The process should link strategic workforce planning to service planning.

³ Community planning: an initial review. The Accounts Commission and the Auditor General for Scotland. June 2006.

⁴ The role of community planning partnerships in economic development. The Auditor General for Scotland and the Accounts Commission, November 2011.

⁵ Scotland's public finances. Addressing the challenges. Auditor General for Scotland and the Accounts Commission, August 2011

12. The alignment of resources towards shared objectives is important if CPPs are to maximise the impact of the collective use of public resources in delivering real improvements in their area. Integrated service provision and shared budgets between partners can contribute to better use of resources and improvements in the quality of service experienced by local people.

Strand 2 – Benchmarking and performance measurement

13. Achieving many of the outcomes in the Scottish Government's National Performance Framework (NPF), and the improvements in outcomes set out in individual SOAs, will be long-term and dependent on the delivery of efficient and high quality services. In a period of tighter budgets it is even more important that public bodies understand how their spending affects the quality and quantity of services. Effective management information is needed to:
- inform robust options appraisal and decision- taking, and trade-offs about competing priorities
 - control costs and risks, and
 - provide a better understanding of what drives improvements in productivity and quality, and the impact of decisions on services and service users.
14. However, many of our reports highlight that organisations lack basic data on the cost, activity and quality of the services they deliver⁶. This reflects generally under-developed cost and performance benchmarking arrangements across the public sector. Given the lack of management information, it can be very difficult to assess if services are providing value for money. This lack of information can make it difficult for public bodies to:
- Demonstrate that their priorities clearly reflect local need
 - Have confidence that they are targeting their resources and activities towards actions that will make a real difference for the area
 - Understand how to make the most cost-effective use of the resources available to them
 - Satisfy themselves that they are meeting their responsibilities for equalities, and
 - Demonstrate that they are continually improving the services they deliver.
15. Audit Scotland data on the level and range of self-evaluation activity in Scottish councils shows high levels of commitment to self-evaluation but identified inconsistencies in self-evaluation coverage and in the quality of information available across different services and outcome areas. It will be some time before all councils have fully effective self-evaluation arrangements in place. The use of benchmarking data to assess costs, quality and performance remains under-developed and there is limited consideration of service users' views and customer satisfaction information.
16. The Accounts Commission's statutory performance indicators (SPIs) remain an important source of comparative performance information. The Commission wants to be able to use its statutory role to underpin performance reporting designed by councils themselves. To this end, the Commission intends to undertake a review of statutory performance indicators in 2012 to ensure that they remain relevant and fit for purpose.
17. The work that is being taken forward by the Society of Local Authority Chief Executives (SOLACE) to develop an agreed suite of cost and outcome measures that councils can use for benchmarking and public performance reporting has the potential to support improved practice in this area. It is an important context for the Commission's review of SPIs, the progress of which the Commission is monitoring closely.

⁶ Ibid; An overview of local government in Scotland 2010. Accounts Commission, January 2011; Improving public sector efficiency. Auditor General for Scotland and Accounts Commission, February 2010.

Strand 3 – Developing new ways of delivering services

18. The financial pressures facing public services mean that public sector leaders will need to show strong leadership over the next few years as they make difficult decisions about the future shape and role of public services.⁷
19. New approaches to delivering services need to be designed with the user in mind and should focus on delivering the highest quality of services within the available budgets. We believe that the public sector should consider extending collaboration and joint working to deliver more efficient and effective services in the future where there is a strong evidence based case to do so. This may include looking to alternative providers, developing shared support service arrangements or integrated approaches to delivering front-line services. Strong local political and officer leadership is key to realising any benefits as quickly as possible.
20. Any assessment of the potential for shared services must be based on a clear business case, having first considered and compared what might be achieved from simplifying, standardising and streamlining existing processes.
21. A decision to pursue an alternative method of service delivery can change long-standing arrangements and can have far reaching consequences for service users, services, systems and staff. These are often very difficult decisions and elected members and other public sector decision-makers need to balance short term political objectives with longer term needs and sustainability of services and finances and the impact on people.
22. This is particularly so when balancing the budget relies on the savings generated from an alternative service delivery option. Decisions should be taken on the basis of good quality information and councils and other public bodies must be in a position to explain and where necessary justify actions, including where elected members and other public sector decision-makers decide to reject the recommended course of action. Where decisions are deferred or proposals are rejected without adequate explanation and communication, services, finances and the reputation of the organisation can be damaged or put at risk.
23. The Scottish Government should strongly encourage more collaboration and remove any barriers to joint working. For example, in our joint improving public sector efficiency report we identified the problems faced in Orkney where the council and NHS board tried to share services⁸. Our more recent joint report on Community Health Partnerships identified financial governance challenges in both the Western Isles and Greater Glasgow and Clyde CHPs.⁹
24. Despite the Arbuthnot review in 2009¹⁰ there has been limited progress on shared service initiatives. The Accounts Commission recognises that councils are participating in a number of nationally and locally led shared service projects but has commented that there is scope for increased pace in this area.
25. In relation to new models of delivering public services our reports have found that:
 - the Scottish Police Services Authority's (a national shared service for Scotland's police forces) early development was hampered by a lack of clarity on how it was to deliver its long-term benefits, which was compounded by poor information about the services transferred.¹¹

⁷ Scotland's public finances. Addressing the challenges. Auditor General for Scotland and the Accounts Commission, August 2011

⁸ Improving public sector efficiency. Auditor General for Scotland and Accounts Commission, February 2010

⁹ Review of Community Health Partnerships. Auditor General for Scotland and Accounts Commission, June 2011.

¹⁰ Clyde Valley Review. Sir John Arbuthnott, 2009.

¹¹ The Scottish Police Services Authority. Auditor General for Scotland, October 2010

- The public sector and councils in particular, are making increasing use of arm's-length external organisations (ALEOs) to deliver services on their behalf, such as leisure services. However, robust information is not always available to ensure that local public bodies are achieving best value from such arrangements¹².
 - Funding arrangements for services for vulnerable people are often complex and projects can have a number of separate funding streams, each with different timescales and reporting criteria. This is an added difficulty for those planning and providing services.¹³
 - The public sector has had some success in collaborating with others. It has reported significant efficiency savings from better collaboration in purchasing goods and services although progress in the development and take-up of collaborative contracts varies across the public sector.¹⁴ A number of health boards are also working in collaboration to introduce an e-health patient management system which should cover three-quarters of people in Scotland within two years. The McClelland report¹⁵ demonstrated that there is further scope to implement good practice and secure efficiencies from procurement.
 - There are a number of technological developments that could support more efficient public services. For example, eProcurement Scotland (ePS) was launched in 2002 and has helped introduce e-sourcing (electronic tendering and auctions) and electronic purchasing across the public sector. By April 2009, 102 public bodies were using ePS and had spent almost £2.5 billion a year through it. Although information is not centrally collected, indicative figures suggest that savings of between £9 million and £25 million in staff efficiencies may have been achieved across the public sector since its introduction in 2002.¹⁶
26. There is scope to improve how information is collected and shared among agencies in Scotland. NHS bodies and councils use different information systems which limits their ability to deliver joined-up, responsive services. The lack of a consistent approach to information sharing can also limit effective joint working. Barriers include different data definitions and different security systems. Inconsistencies in systems used within sectors are also problematic.
27. More could be done to provide incentives to deliver savings across sectors rather than setting efficiency targets for individual bodies. There is the potential to save more by bodies working together to identify efficiencies across the whole system of service delivery. We estimated that inefficiencies in the criminal justice system through repeat stages in the court process cost around £10m in 2009/10. Late decisions not to proceed with cases cost an estimated additional £30m.¹⁷ A number of bodies in the criminal justice sector have worked together to streamline the process and deliver savings for the sector, rather than themselves individually. However, there is currently no mechanism for measuring savings in this way and there are limited incentives for individual bodies to change their processes for the benefit of others.
28. Strong governance and accountability are paramount, especially when the risks facing the public sector are increasing because of reduced budgets, increased demand and costs pressures, and the process of managing change associated with public sector reform. Boards and councils should ensure they are assessing and managing risks and have strong, linked information to support the decisions they are making.

¹² Arm's-length external organisations (ALEOs): are you getting it right? Accounts Commission, June 2011

¹³ Review of Community Health Partnerships. Auditor General for Scotland and Accounts Commission, June 2011.

¹⁴ Improving public sector purchasing. The Auditor General for Scotland and the Accounts Commission, July 2009.

¹⁵ Review of public procurement in Scotland – report and recommendations. Scottish Government, March 2006.

¹⁶ Ibid.

¹⁷ An overview of Scotland's criminal justice system. The Auditor General for Scotland and the Accounts Commission, September 2011.

29. Our work has also identified areas where the governance and accountability arrangements in individual partnerships are unclear. Implementing good governance and accountability in partnerships is more challenging than in individual organisations and significant effort needs to go into making sure these are fit for purpose. This is particularly important at a time when new partnerships, such as statutory Health and Social Care Partnerships are currently under consideration. Ensuring that clear and effective accountability arrangements are established for these new bodies is essential if these bodies are to play an important part in supporting public service reform and local service integration.
30. Linked to the need for strong governance and accountability is the need for independent scrutiny, for both holding public bodies to account and supporting improvement. This is ever more important as budget constraints may result in more and higher risks for public bodies. The role of independent external audit, in holding public bodies to account and reporting publicly on findings is essential. However, this is not a substitute for strong internal governance and management arrangements in public bodies. The role of inspection in maintaining high quality professional standards for the protection of users is also hugely important. Each has their place and a coordinated and proportionate approach needs to be applied.

Community Planning Partnerships and outcomes auditing

31. The Committee will be aware that the Accounts Commission has been asked by the Cabinet Secretary for Finance, Employment and Sustainable Growth to lead development work on preparing a case for how external audit and inspection may support the delivery of better outcomes by Community Planning Partnerships (CPPs).
32. This work will involve designing, piloting and evaluating an approach to assessing how well community planning partners are working together to deliver improved outcomes for their local communities. This will include:
 - developing and testing an approach to assessing the effective delivery of outcomes at the level of community planning partnerships
 - developing an approach to assessing how effectively resources are being used across the partnership (with a particular focus on linking relative spend to outcomes)
 - developing an approach to assessing how well the CPP is engaging with local communities.
33. This development work is running alongside, and will be informed by, the Scottish Government and COSLA joint review and refresh of Community Planning and the Single Outcome Agreement process for Scotland which is due to report by March 2012.