

Delivering efficiencies within the Scottish public sector

Project Brief, June 2009

Audit Scotland is undertaking this study on behalf of the Accounts Commission (based on the provisions in section 97A of the Local Government (Scotland) Act 1973, 'The Commission shall undertake or promote comparative or other studies designed to enable it to make recommendations for improving economy efficiency or effectiveness in the provision of services by local authorities or by other bodies...') and the Auditor General for Scotland (under the Public Finance and Accountability (Scotland) Act 2000 Section 23, Economy, efficiency and effectiveness examination).

Audit Scotland is a statutory body set up in April 2000. It provides services to the Accounts Commission and the Auditor General for Scotland. All of Audit Scotland's work in connection with the 32 councils, fire and police services is carried out for the Accounts Commission. All of Audit Scotland's other work is undertaken for the Auditor General who reports to the Scottish Parliament.

Introduction

1. This project brief sets out Audit Scotland's proposal to review the delivery of efficiencies across councils, central government and health bodies. This study will provide an overview of the Scottish Government's 2005/06 - 2007/08 Efficient Government Initiative and consider the extent to which public bodies are set up to deliver year on year efficiency savings.

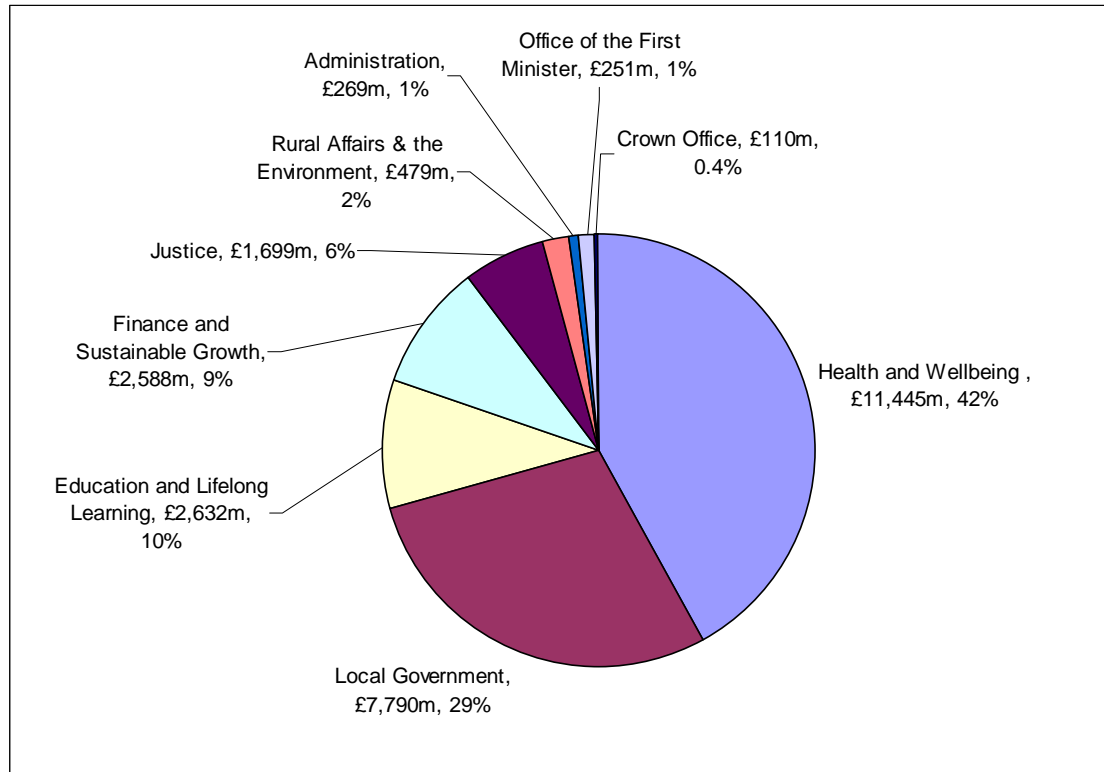
The Scottish budget

2. The Scottish public sector spends around £30 billion each year. The Scottish Government budget for 2008/09 (after the Spring Budget Revision) was £30.2 billion. Within this total the Department Expenditure Limit (DEL) budget was £27.3 billion and the Annually Managed Expenditure budget was £2.9 billion.¹
3. The Health and Wellbeing and Local Government portfolios make up 70 per cent or around £19.2 billion of the Scottish Government DEL budget. The remaining seven portfolios comprise 30 per cent, with the Education and Lifelong Learning and Finance and Sustainable Growth portfolios making up 19 percent of the total (£5.2 billion) (Exhibit 1).

¹ DEL is an agreed element of funding drawn down by the Scottish Government from the UK Treasury budget. It is determined by the Barnett formula, giving Scotland a population based share of spending on comparable UK programmes, and makes up around 90 per cent of the Scottish Government's budget. Annually Managed Expenditure is expenditure that is less predictable and therefore needs to be controlled on an annual basis rather than over the longer term. Examples of Annually Managed Expenditure include student loans and NHS and teachers' pensions.

Exhibit 1

Scottish Government Budget 2008/09 – Portfolio analysis



Source: *The 2008-09 Spring Budget Revision*, Scottish Government, January 2009

Efficient Government Initiative 2005/06 – 2007/08

4. In June 2004, the Scottish Executive launched the Efficient Government Initiative.^{2 3} This was a key element of a programme of investment, reform and modernisation of the Scottish public sector. The initiative sought to secure £0.745 billion cash-releasing savings – producing the same outputs with fewer inputs – and £0.3 billion time-releasing savings – producing more or better outputs for the same inputs – by the final year of the 2004 Strategic Spending Review (2007/08). The Scottish Executive stated its aspiration that the initiative would achieve annual recurring efficiency savings of £1.5 billion (equivalent to five per cent of the Scottish budget).⁴ During the period of the Spending Review the Scottish Executive and Government produced

² Prior to September 2007, the Scottish Administration was referred to as the Scottish Executive. It is now called the Scottish Government. When dealing with the earlier period this brief refers to the Scottish Executive but in all other instances to the Scottish Government.

³ *Building a Better Scotland; Efficient Government – Securing Efficiency, Effectiveness and Productivity*, Scottish Executive, 2004

⁴ Definitions of savings are extracted from *Spending Review Technical Notes*, Scottish Executive, December 2004

efficiency outturn reports on an annual basis with the final report published in October 2008.⁵
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5. The final outturn report stated that almost £1.74 billion of annual savings were realised by the end of the Spending Review period (31 March 2008). This included £1.32 billion (76 per cent) of cash-releasing savings and £0.42 billion (24 per cent) of time-releasing savings.
6. Each of the portfolios planned for and achieved different levels of efficiency savings. Cash-releasing targets for portfolios were outlined by the Scottish Executive.⁸ Portfolios reported aggregate cash savings of £2.5 billion against planned savings of £1.7 billion (Exhibit 2). Reported cash-releasing savings ranged from 0.6 per cent in Tourism, Culture and Sport to 3.8 per cent in Administration. Over two-thirds of reported savings were from the two largest portfolios. The Finance and Public Service Reform and Health and Community Care portfolios reported 36.6 per cent and 36.9 per cent respectively of all aggregate cash-releasing efficiency savings achieved during the 2004 Strategic Spending Review.^{9 10} These savings amounted to around three per cent of these two portfolios' cumulative spend.

⁵ *Efficient Government – Efficiency Outturn Report for 2005/06*, Scottish Executive, September 2006

⁶ *Efficient Government – Efficiency Outturn Report for 2006/07*, Scottish Executive, November 2007

⁷ *Efficient Government – Efficiency Outturn Report for 2007/08*, Scottish Government, October 2008

⁸ *Building a Better Scotland; Efficient Government – Securing Efficiency, Effectiveness and Productivity*, Scottish Executive, 2004

⁹ Portfolios were restructured following the change in the Scottish administration. The portfolios are now Office of the First Minister, Education & Lifelong Learning, Finance & Sustainable Growth, Health & Wellbeing, Justice and Rural Affairs & the Environment.

¹⁰ The previous Finance and Public Service Reform portfolio included Local Government.

Exhibit 2

Efficiency savings by portfolio (2005/06 – 2007/08)

	Total Aggregate DEL	Planned Total Aggregate Cash Savings		Actual Total Aggregate Cash Savings	
	£m	£m	%	£m	%
Finance and Public Service Reform	31,255.4	502.0	1.6	920.7	2.9
Health and Community Care	28,546.0	498.0	1.7	927.6	3.2
Enterprise and Lifelong Learning	8,453.8	15.0	0.2	82.5	1.0
Transport	6,070.9	33.0	0.5	90.7	1.5
Communities	3,852.0	14.0	0.4	99.7	2.6
Justice	3,117.3	60.0	1.9	62.6	2.0
Environment and Rural Development	3,071.6	10.0	0.3	27.4	0.9
Education and Young People	1,710.3	17.0	1.0	17.6	1.0
Tourism, Culture and Sport	856.8	3.0	0.4	4.8	0.6
Administration	781.1	16.0	2.0	29.8	3.8
COPFS	292.7	9.0	3.1	9.8	3.3
Other*	-	555.0		242.2	
Total	88,007.9	1,732.0		2,515.4	

*Other includes Scottish Water, Procurement (non NHS) and Registers of Scotland

Source: Audit Scotland from figures within *Efficient Government – Efficiency Outturn Report for 2007/08*, Scottish Government, October 2008, *Draft Budget 2007-08: Final Report on 2002 Spending Review Targets*, Scottish Government, September 2006 and *Building a Better Scotland*, Scottish Government, November 2004

7. The Scottish Executive's target of securing £0.3 billion annual time-releasing efficiency savings by the end of the 2004 Strategic Spending Review was not broken down by portfolios. Portfolios therefore set their own targets for time-releasing savings. By the end of the 2004 Strategic Spending Review (the end of 2007/08) portfolios aimed to achieve time-releasing efficiencies of £418.4 million and reported efficiency savings of £423.4 million.
8. In December 2006, Audit Scotland published a progress report on the implementation of the Scottish Executive's 2004 Efficient Government Initiative.¹¹ This report considered the extent to which reported efficiency savings were based on robust processes and information. The report found that:
 - the initiative was being implemented and the Scottish Executive reported efficiencies of £442 million in the first year

¹¹ *The Efficient Government Initiative – A Progress Report*, Audit Scotland, December 2006

- the key challenge was to deliver efficiencies while maintaining or improving service quality and quantity
- risks remained with the definition of savings
- further work was required to develop the measurement of efficiency savings
- a large proportion of efficiencies were expected to be delivered from a small number of projects and by local bodies rather than central government.

Efficiency targets for 2008/09 - 2010/11

9. The Scottish Government's 2007 Strategic Spending Review outlined the Government's commitment to delivering a more efficient public sector.¹² This commitment is supported by the Scottish Government's Efficient Government Programme 2008/09 – 2010/11, which provides guidance and support to public bodies to help them deliver the required efficiency savings.
10. As part of this programme the Scottish Government set out its commitment to deliver £1.6 billion of annual cash-releasing efficiency savings by the end of 2010/11. To achieve this level of savings the Scottish Government has set portfolios a target of two per cent cash-releasing savings for each of the three financial years. This target was based on each portfolio's 2007/08 Departmental Expenditure Limit (DEL).¹³ Applying the Scottish Government's two per cent efficiency savings target to cumulative DEL over the three years to 2010/11 highlights that portfolios may need to deliver more efficiency savings than the current targets (Exhibit 3). For example, the Health and Wellbeing portfolio has a cumulative target of £0.646 billion to deliver by 2010/11, but two per cent of the cumulative DEL over the same period is equal to £0.703 billion.
11. The Scottish Government published its Efficiency Delivery Plans in March 2008.¹⁴ These set out identified savings within each portfolio, amounting to £1.5 billion. Additional plans are therefore required by portfolios to meet the remaining £0.1 billion if the target of £1.6 billion is to be met by 2010/11.¹⁵

¹² *Scottish Budget – Spending Review 2007*, Scottish Government, November 2007

¹³ *Efficient Government Programme 2008/09 – 2010/11; Efficiency Process & Guidance Version 3.1*, Scottish Government, April 2008

¹⁴ *Efficiency Delivery Plans 2008–2011*, Scottish Government, March 2008

¹⁵ *Efficiency Delivery Plans 2008–2011*, Scottish Government, April 2009

Exhibit 3

Cash savings by portfolio 2010-11¹⁶

	Target Savings	Identified Savings	Difference (Target vs Identified)	2% of Cumulative DEL	Difference (2% of DEL vs Target)
	£m	£m	£m	£m	£m
Health and Wellbeing	645.6	638.7	6.9	703.1	57.5
Local Government	524.1	524.1	-	574.2	50.1
Education and Lifelong Learning	145.2	178.2	(33.0)	149.3	4.1
Finance and Sustainable Growth	159.6	72.3	87.3	176.0	16.4
Justice	57.6	51.9	5.7	64.8	7.2
Rural Affairs and the Environment	34.8	69.2	(34.4)	38.1	3.3
Office of the First Minister	15.9	10.2	5.7	17.6	1.7
Administration	14.4	14.4	-	15.0	0.6
Crown Office and Procurator Fiscal	6.0	4.1	1.9	7.0	1.0
Total	1,603.2	1,559.0	44.2	1,745.1	141.9

Source: Audit Scotland from figures within *Efficiency Delivery Plans 2008-2011*, Scottish Government, April 2009 and *Scottish Budget Spending Review 2007*, Scottish Government, November 2007

12. The Efficient Government Programme also sets out a change in the type of efficiency savings that can be reported against the Scottish Government's targets. The 2004 Efficient Government Initiative allowed public bodies to report efficiency savings through both cash-releasing and time-releasing savings. The Scottish Government has changed the efficiency savings that can be reported against the two per cent target for the current spending review period, with only cash-releasing savings counting towards the 2008/09 – 2010/11 efficiency targets.
13. The Efficiency Delivery Plans for 2008/09 – 2010/11 are categorised by portfolio with Scottish Government accountable officers nominated for each project. Councils' efficiencies will be reported by the Convention of Scottish Local Authorities (COSLA). The Scottish Government's Efficiency Delivery Plans for 2008/09 – 2010/11 do not, therefore, identify individual projects for councils.
14. The Scottish Government's Efficiency and Transformational Government Division ensures that the programme is robust and assesses the quality of proposed efficiency projects.

¹⁶ The Crown Office and Procurator Fiscal Service (COPFS) sits within the Justice portfolio but is identified separately within the *Efficiency Delivery Plans 2008-11*, Scottish Government, April 2009.

Why is Audit Scotland undertaking this study?

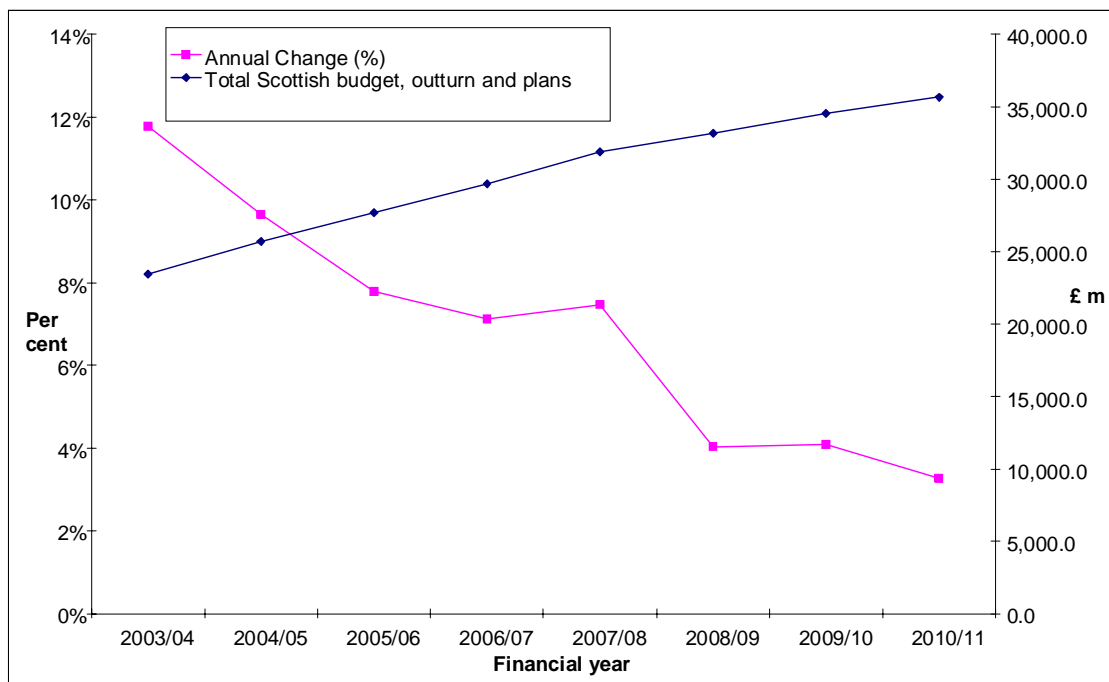
15. The £1.6 billion annual efficiencies target by the end of 2010/11 is in addition to the delivery of £1.7 billion of annual efficiency savings achieved by the end of March 2008. Efficient and effective use of public sector resources is important and the delivery of efficiency targets is a key component of Scottish Government future spending plans. The following are the key reasons why Audit Scotland is undertaking this review.

The delivery of efficiencies is a key requirement given existing financial pressures and current economic conditions

16. Since 2003/04 the Scottish budget has increased from £23.4 billion to a planned level in 2010/11 of £35.7 billion in cash terms. However, the year on year percentage change (in cash terms) has decreased from around 12 per cent to a projected three per cent by the end of the current spending review period (Exhibit 4). A key element in the realisation of the Scottish Government budget for 2008/09 – 2010/11 is the delivery of the Efficient Government Programme and the achievement of efficiency saving targets by public bodies.

Exhibit 4

Scottish budget outturn and plans 2003/04 – 2010/11 and percentage change



Source: Audit Scotland from *Scottish Budget Spending Review 2007*, Scottish Government, November 2008

17. The UK budget announcement in April 2009 emphasised the constraints upon UK public expenditure with plans to increase borrowing along with a reduction in real terms expenditure. As a result, the overall Scottish budget for 2010/11 has reduced by £0.844 billion, which

includes additional efficiency savings of £0.392 billion as Scotland's share of £5 billion additional UK Government value for money savings.

18. As part of the UK budget in 2009, the Chancellor announced a further £9 billion of UK value for money savings covering the next Spending Review period from 2011/12 – 2013/14. This will provide additional constraints on public expenditure in Scotland during this period but the impact is currently unknown. As a result of these developments, there is likely to be increased pressure on budgets for 2009/10 and the immediate future.
19. The current economic climate is likely to lead to a greater reliance on public sector services, for example increased education and skills training. In order to deliver public services in this climate, public sector organisations will need to ensure these services are operating effectively and efficiently.
20. Pressures from demand-led policies and service provision, such as free personal nursing care and concessionary fares, are expected to rise. Public bodies may find that demand exceeds estimated levels which may result in higher than forecast costs.
21. Public bodies are also facing increasing additional financial pressures such as, increasing pension liabilities, equal pay agreements and equal pay settlements. Other, currently unforeseen, financial pressures may also emerge.

To provide assurance on the ability of public bodies to measure and monitor efficiency savings

22. Audit Scotland's 2006 progress report found that there were significant challenges and difficulties in the measuring and monitoring of efficiency savings. Public bodies needed to do more to ensure they could provide assurance that reported efficiencies had been achieved without a reduction in the quality of services provided. This study will identify what work was undertaken to address these issues and how effective it has been.
23. Public bodies must have a clear commitment and be able to demonstrate clear leadership in ensuring they are operating efficiently. This study will seek to gain assurance on how public bodies have embedded the delivery of efficiency savings within their organisational culture.
24. Efficiency savings and targets must be properly planned and integrated within the ongoing business of an organisation. Efficiency targets should therefore be included within corporate objectives, as well as service and departmental plans. Public bodies must also have identified baseline levels of service delivery and have effective systems for measuring and monitoring the delivery of efficiency savings.
25. As discussed above, the 2008/09 – 2010/11 efficiency targets set out by the Scottish Government can now only be delivered through cash-releasing savings. Public bodies must therefore ensure that their efficiencies programmes have been adjusted to reflect this change.

Public bodies should continue to make time-releasing savings but these should be clearly identified and separately reported from cash-releasing savings as they do not count against the two per cent efficiency target.

Aims and objectives

26. The overall aim of the project is to review the delivery of efficiencies across councils, central government and health bodies. The study's two objectives are to:

- provide an overview of the 2005/06 - 2007/08 Efficient Government Initiative including the reported savings from the programme.
- assess the readiness and ability of public bodies to deliver and monitor efficiency savings and highlight areas of good practice and areas for improvement.

Project scope and methodology

Scope

27. The scope of the project is divided into two separate sections:

- *Efficiencies reported during 2005/06 - 2007/08.* The study will provide an overview of the Efficient Government Initiative and the savings reported. The study will also examine the issues identified in Audit Scotland's 2006 progress report and how the Scottish Government, COSLA and the Improvement Service sought to help public bodies address these.¹⁷ The study will look at whether the issues identified within the 2006 progress report have been addressed. The study will not audit or validate efficiency savings reported as part of the 2005-08 initiative.
- *Delivering efficiencies in 2008/09 - 2010/11.* Based on a detailed review of a sample of public bodies, the study will assess the readiness and ability of the public sector to deliver the two per cent efficiency target set out by the Scottish Government. We will help public bodies improve by identifying examples of good practice that can be shared across the public sector. This part of the study will include examination of the commitment and leadership of bodies to deliver efficiency savings. The study will assess the arrangements for monitoring and measuring efficiencies and how public bodies have linked these to performance indicators to ensure savings delivered are not having a detrimental impact on service delivery.

¹⁷ The Improvement Service is governed by a Board as a partnership between the Convention of Scottish Local Authorities and the Society of Local Authority Chief Executives. The Improvement Service is focussed on improving the efficiency, quality and accountability of public services in Scotland through learning, sharing knowledge and delivering improvement solutions.

Methodology

28. *Efficiencies reported during 2005/06 - 2007/08.* The study team will review a range of documents relating to the 2005-2008 Efficient Government Initiative. These documents will include the Scottish Government's report on the efficiency savings delivered, Efficiency Technical Notes published for this period, outturn reports and the efficiency returns reported through COSLA. We will also interview representatives from the Scottish Government's Efficiency and Transformational Government Division, COSLA and the Improvement Service.
29. *Delivering efficiencies in 2008/09 - 2010/11.* Fieldwork will be carried out at 15 public bodies to assess the preparedness of public bodies to contribute to the two per cent efficiency target for portfolios and to identify areas of good practice. The fieldwork will be undertaken across central government, the NHS and councils with five bodies being selected from each. We will apply Audit Scotland's Best Value Efficiency Toolkit in each of the 15 bodies which includes interviewing key individuals and reviewing relevant supporting documentation. The 15 bodies selected cover urban and rural areas, organisations with national and regional focuses as well as those with specific remits and objectives and also organisations which have established community partnerships and joint working arrangements.
30. As part of the annual audit process, external auditors review and report on public bodies' arrangements to manage economy, efficiency and effectiveness of their resources.¹⁸ The Public Reporting Group (PRG) study team will therefore be supported by the external auditors at each of the fieldwork sites. For some public bodies the fieldwork will be led by the external auditor and at other sites the fieldwork will be led by the PRG study team. The approach for each public body will be agreed with the relevant external auditor. .

Diversity and equalities issues

31. This study primarily focuses on the arrangements within public bodies to deliver efficiency savings. It will be important to identify whether bodies are able to provide assurance and evidence that they have maintained or improved the quality of service delivery in areas affected by efficiency plans, particularly in those services where there may be diversity and equality issues.

Sustainability

32. UK and Scottish sustainable development guidance indicates that one aspect of achieving the goal of sustainable development is through the efficient use of resources and energy. The findings of the review on how prepared public bodies are to deliver, monitor and measure the

¹⁸ Code of Audit Practice, Audit Scotland, March 2007

two per cent efficiency targets will therefore be of interest and relevance to sustainable development work.

Potential impact

33. It is anticipated that the findings of this study will:

- provide assurance on the extent to which public bodies can deliver and evidence year-on-year efficiency savings
- highlight areas of good practice that can be shared across the public sector
- identify or highlight any potential barriers to delivering efficiency targets within the public sector.

Links to other work

34. The study has links with other Audit Scotland activities. These include a variety of reports and planning tools. The reports include some already published and others to be published during 2009:

Work by Audit Scotland

- Audit Scotland is developing audit toolkits to cover Best Value principles which can be applied in all sectors to ensure that there is a consistent approach to auditing Best Value. The report from this study will use Audit Scotland's Best Value Efficiency Toolkit as the basis for the onsite fieldwork.
- There are also links with Audit Scotland's NHS, colleges and local government overview reports. These reports provide an overview of the performance (including financial performance) of each of the sectors and include consideration of the financial challenges and future risks in each sector.
- Audit Scotland's Priorities and Risks Framework (PRF) tools for the NHS and local government sectors are linked to this review. The PRF tools summarise the key national priorities and risks facing health and local government bodies, including the delivery of efficiencies.
- The 2008 Audit Scotland report on Improving Energy Efficiency (December 2008) provided an assessment of how the public sector is improving its energy efficiency in relation to buildings and transport use. The study assessed local government, NHS and central government bodies, although the recommendations are transferable across the whole of the public sector.
- Audit Scotland's 2009 report How government works: central government's use of consultancy service (January 2009) assessed how central government ensures value for money from its use of consultancy services.

- The 2009 Audit Scotland report on NHS Asset Management (January 2009) examined how the NHS is strategically managing its assets to support effective service delivery. The report commented on how NHS bodies should ensure they achieve value for money from their estate.

35. This review is also closely linked to further reports which form part of Audit Scotland's programme of work for 2009/10.

- A review of Scottish Government's Procurement Reform Programme.
- Financial management in the Scottish Government.
- Orthopaedics services.
- A review of Efficient Justice.
- Scottish Police Services Authority review.

Work by other agencies

36. The study has links to work by other agencies:

- In autumn 2009 the Scottish Government is due to publish a report on the level of efficiencies achieved by public bodies during 2008-09
- National Audit Office, The Efficiency Programme: A Second Review of Progress
- National Audit Office, Opinion pieces on improving government efficiency.

Project staffing and resources

37. The project will be managed by James Thomson, Project Manager (Central Government), with support from two performance auditors, Gill Miller and Liz Ribchester. The review will also be supported by the appointed external auditors of the bodies selected for fieldwork, with auditors providing knowledge and information on efficiency work currently being undertaken at these organisations. The project will be carried out under the direction of Stephen Reid.

Project outputs and draft timetable

38. We plan to publish a report and present it to the Scottish Parliament Public Audit Committee in the autumn of 2009. Any additional outputs will be considered as the study progresses.

The draft timetable for the project is as follows:

Key project milestone	Target date
Final approval of project brief	April 2009
Fieldwork and analysis	March – May 2009
Approval of key messages	June 2009
Report drafting	June – August 2009
Clearance	September 2009
Publication	November 2009
Project review	January 2010

39. The timetable will be kept under review as the scope and audit approach for the project is developed.

Project advisory group

40. A project advisory group will be established which will meet at key intervals during the project and will include individuals from a cross-section of stakeholders (see below). The role of the advisory group is to provide independent advice and feedback to the project team to help ensure the work is relevant and meets the needs of stakeholders. Advisory group members sit in a personal capacity and do not formally represent their organisations or sectors.

Stakeholders

41. The study will have a number of stakeholders:

- Scottish Parliament committees
- Scottish Government
- Executive Agencies and Non-Departmental Public Bodies
- Local authorities
- NHS boards
- The Improvement Service
- COSLA
- Trade unions.

Further information

42. If you have any questions about this project please contact James Thomson at jthomson@audit-scotland.gov.uk on 0131 625 1833 by fax on 0845 146 1009 or in writing at the address below:

Audit Scotland
18 George Street
Edinburgh
EH2 2QU

